UNIVERSITY OF GHANA

CORPORATE GOVERNANCE AND RISK DISCLOSURES OF BANKS IN GHANA

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DECLARATION

I hereby assert that this work is an independent result of the research at the University of Ghana under the supervision of Dr. W. Coffie and Prof. M. Amidu of Department of Accounting, University of Ghana Business School.

I certify that, this research work has not been carried out or submitted in part or in whole for any degree in any institution. Every specified quotation, reference, and idea has been appropriately acknowledged. I assume complete responsibility for errors that may be contained in this report.

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CERTIFICATION

I hereby attest that this thesis was supervised in accordance with procedures laid down by the University of Ghana.

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DEDICATION

This thesis is dedicated to my parent, Mr. David Edmond Buabeng and Madam Victoria Antwi; and to my wife Linda Buabeng for their valuable support and love.

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To God be the glory for His unmerited favour and enabling strength that has sustained and taken me this far.

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ABSTRACT

This study examines the effects of corporate governance on risk disclosure of banks in Ghana using a sample size of 21 banks over an eight-year period (2007-2014). Using annual data of the banks the study estimates risk disclosure scores to measure risk disclosure levels and corporate governance mechanisms as surrogates for corporate governance. It employs panel regression analysis to investigate the linkage between risk disclosures of the banks and corporate governance, while controlling for some bank specific characteristics.

The study reveals that the trend of risk disclosures in banks' annual reports in Ghana is quite high and increased over the period. The results however indicate that institutional ownership, audit committee independence and board size are not significantly associated with bank risk disclosure. Risk management committee size and board independent had positive and significant relationship with bank risk disclosure. However, a robust test of joint corporate governance variables had positive but insignificant relationship with bank risk disclosures indicating a weak relationship. This result thus does not provide evidence to support the agency theory in Ghana's banking sector concerning the disclosures of risk in corporate annual reports. The results also reveal that bank size, return on assets, auditor type and IFRS adoption have positive and significant relationship with risk disclosures of banks in Ghana. Local or foreign bank however tends to have a negative and significant relationship with bank risk disclosures.

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LIST OF ABBREVIATIONS

AIRMIC	Association of Insurance and Risk Managers
BCBS	Basel Committee on Banking Supervision
BOG	Bank of Ghana
GSE	Ghana Stock Exchange
IAS	International Accounting Standard
ICAEW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standard
IOD	Institute of Directors
IRC	Institute of Risk Management
OECD	Organization for Economic Cooperation and Development
PCSE	Panel Corrected Standard Error
SEC	Security and Exchange Commission
IPO	Initial public offering
UK	United Kingdom
USA	United States of America

CHAPTER ONE

INTRODUCTION

1.1 Background

There have been many advancements in Ghana's banking sector since the 1980s, because of fast developments in its financial markets and global trends in the way money flows along with technology. Technological progress and liberalization have opened up the banking industry worldwide to more advanced transactions (Bokpin, 2013). Within the same period, margins picked up from traditional banking began to decrease while capital adequacy requirements started to rise. Banks reacted to these difficulties with assurance and creative energy by entering new business regions and financial markets with more advanced products.

The developments of these worldwide financial markets and a more notable variety of financial instruments have permitted banks more access to deposit and non-deposit funds. At the same time, chances to plan new products and offer more services have risen. The pace of these progressions does not seem to reduce, as banks are continually associated with the provision of new instruments, products, and services (Holland, 2010; Greuning & Bratanonic, 2009). Moreover, the case has not been different in Ghana, where even the smallest banks have one form of derivative instrument or the other in their books. As these banks implement better means of pricing and selling their products, they are bound to get creative on how they can use these transactions to improve revenues. Nevertheless, regulators have designed several measures to check the systemic effects that the activities of these banks have on the economy in general (KPMG, 2016).

The year 2007 saw increased development in banks' branch networks. Five years after the Bank of Ghana introduced the universal banking license and lifted the restrictions on the kind of

businesses that banks could do and the sort of clients that they could draw in with, some banks communicated their intent in the import of branches in the crusade to convey banking to the doorsteps of their targets in a market that is quickly developing in its complexity (PwC, 2008; Amidu & Hinson, 2006). It prompted rivalry in the business and increased profitability on banked funds. In this vein, as banks continue to enter new business zones together with expanded products and services, their risk profile keeps on increasing. It is so because banks, as indicated by Bessis (2003, pp. 11) are "risk machines": they accept risks, appropriate them, and implant them in banking products and services.

A riskier business atmosphere often prompts a risker investment atmosphere. To lessen the inherent risks in the banking business, stakeholders request that the annual report incorporate information that is reliable and relevant. It helps in evaluating precisely the risks and vulnerabilities of a bank's future incomes and business operations. Extant studies acknowledge that risk management, in terms of disclosures, brings about greater transparency. It increased stakeholders' confidence in decision-making and bring advantages to the performance of the firm (see Cabedo & Tirado, 2004; Abraham & Cox, 2007; Hassan, 2009; Linsley & Lawrence, 2007; Schrand & Elliott, 1998 Linsley & Shrives, 2006; Meier, Tomaszewski, & Tobing, 1995; Solomon, Solomon, Norton & Joseph, 2000). A study conducted by the Institute of Chartered Accountants in England and Wales (2012), highlights the need for banks to reveal information about the risks they have experienced and the lessons they have learned over time (Beretta & Bozeman, 2004).

Disclosure of risks has gained a higher level of significance in the banking industry compared to non-banking firms for the reason that banks are naturally more obscured (Huang, 2006; Lin, 2009; Nier & Baumann, 2006). High corporate failures that came to light during the recent financial

crisis were as a result of accounting inconsistencies and non-disclosure. It has made banks' risks a point of interest and has questioned the dependability of banks' reporting frameworks, specifically annual reports (Linsley & Shrives, 2005) and the adequacy of corporate governance structures in ensuring disclosure of useful risks information.

The corporate breakdowns in the developed nations indicate the need for proper risk management strategies (transparency and disclosure) and robust governance mechanisms (Cheung & Chan, 2004; Iatridis, 2010; Mallin, 2002). Several studies propose that having robust governance mechanisms guarantee greater transparency of information about the business enterprise (Bushman & Smith, 2003; Hassan, Abdul Rahman & Mahenthiran, 2008). Weak bank governance causes the stakeholders to have doubts about the bank's ability to handle its liabilities and assets adequately (Alexander, 2006; BCBS, 2005; Cebenoyan & Strahan, 2001; Garcia-Marco & Robles-Fernandez, 2008). Banks have their underlying activity to be taking risks. As part of strong corporate governance, banks need to disclose pertinent and sound risk-associated information to their stakeholders (Linsley & Shrives, 2005).

1.2 Problem Statement

Communication of risk is one aspect of risk management, with particularly high interest by stakeholders of banks. For some time now, practitioners and researchers have indicated the need for effective risk management taking into account risk disclosures (Beltrán, 2014). Extant literature on risk disclosures is comprehensively related to listed firms though banks certainly prone to many types of risk compared to other kinds of firms.

The outcome of the 2007-2009 financial crises indicates that regulators, investors, depositors, bankers, and researchers throughout the world are showing keen concern in the re-evaluation of

existing prudential regulatory requirements, risk monitoring in terms of disclosure and corporate governance within the banking industry (Flannery, Kwan & Nimalendran, 2013). It reflected the wishes for a brand new conceptual framework primarily based on improved risk management in terms of risk disclosures.

Most of the studies on risk disclosures and corporate governance in banking and financial sectors carried out are in developed economies (see Abdallah *et al.,* 2015; Ahmad, Abdullah, Jamel, & Omar, 2015; Mokhtar & Mellett, 2013; Ntim, 2013; Nur Probohudono, 2013; Oliveira, Rodrigues, & Craig, 2011). Very few studies of risk disclosures and corporate governance relating to the banking sector had been conducted in Sub-Saharan Africa, especially Ghana. Given the primary standards for effective bank management, the Basel committee recommends that the benefits of transparency and risk disclosures in keeping faith in banks are prerequisite components in the stable operation of banks (BCBS, 2011).

Studies carried out in Ghana in the area of corporate governance, and disclosures or performance in both the capital markets and the banking industry have not touched on the effects of corporate governance on risk disclosures or performance (example Bokpin, Mensah, & Asamoah, 2015; Aboagye-Otchere, Bedi, Ossei-Kwakye, 2012; Bokpin, 2013; Bokpin & Isshaq, 2009; Tsamenyi, Enninful-Adu, & Onumah, 2007). The study, therefore, investigates how corporate governance mechanisms affect risk disclosures of banks in Ghana by especially examining the single effects as well as the interacting effects of governance characteristics on risk disclosures of banks in Ghana.

1.3 Objectives of the study

The main objective of the study is to evaluate the effects of corporate governance on risk disclosures of banks in Ghana. Specifically, the study seeks to:

1. To analyse the risk disclosure levels of banks from various perspectives.
2. To examine the governance characteristics of banks.
3. To assess the effects of the corporate governance characteristics on risk disclosure levels of the banks.

1.4 Significance of the Study

The findings of this thesis are significant in three areas: research, practice, and policy. Foremost, the study adds up to the ongoing debate of risk disclosures and complements previous studies by focusing on risk disclosures of banks in developing countries like Ghana. The study contributes to the literature by using a panel research approach to study the reliability of risk disclosures in terms of factual and perceived risk information in a developing financial market in Ghana. Interestingly, it also introduces the size of the risk management committee as a corporate governance variable to determine how it influences risk disclosures of banks.

In terms of practice, the topic is relevant to central banks, banks, auditors, and other stakeholders who have stakes in these banks. For instance, for banks, the empirical results show risk disclosure practices among banks and help to know whether corporate governance influences risk disclosure practices among banks in Ghana. For auditors, the results provide guidelines that will aid auditors in auditing the risk disclosed in the annual reports of banks.

Concerning policy, regulators like central banks can derive from this research whether an increasing level of risk disclosure will achieve the desired effects they intend to have and if it might be necessary to vary the policy regulation in such a way to focus more on market discipline or not.

Concerning policy, regulators like central banks can derive from this research whether increasing policy will achieve the desired effects they intend to have, and if it might be necessary to vary the policy regulation in such a way to focus more on market discipline or not.

1.5 Organization of the Study

The organization of the study is in the following manner. Chapter 1 sets out the introductory information where the background, research problem, the objectives, research significance, and organization of the research are covered. The second chapter deals with the assessment of the relevant literature, which comprises the theoretical underpinning of the study and the conceptual framework. This chapter also discusses the basis of hypotheses of the disclosure theories, empirical surveys, and the concept of corporate governance and risk disclosure. Chapter 3 covers the methodology, which features the study area, sources of data and study population, sampling technique and sample size, and the empirical model, with the definition of variables. Chapter 4 presents the analysis and discussion of the data collected, given the study objectives. It also reports the significance of the relationship established among the dependent, independent, and control variables through the testing of the hypotheses proposed. The fifth chapter, which is the last chapter, presents the conclusion, summary, and recommendation based on the results of the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section presents the concepts and the theories of the subject matter of this study. It considers the conceptual framework identified with risk disclosures and corporate governance of banks. The concluding part deals with the empirical review of corporate governance and risk disclosures.

2.2 Concept of Risk and Risk Disclosure

2.2.1 Concept of Risk

Risk is an intriguing concept that has its underlying foundation in relatively every field of study, and experts around there have opined their perspectives on the subject of what constitute risks. Risks to the Institute of Risk Management (2002, p.2) deals with the possibility of an occasion and its implications. It also deals with a wide range of undertakings that incorporate the probability of an event and its result. Risk comprises of an opportunity for advantage (upside) and a threat to progress (downside). International organization for standardization (2009, p.1) sees risk to be "an impact of uncertainty on the objectives of an organization." They allude to impact as a diversion from the normal that is either positive or negative whiles the objective has distinctive angels (including health and safety, financial and environmental goals), which may link various levels of the organization being strategic, organization-wide, project, product, and process.

Several studies have classified risk based on their angle of view about the concept. Jorion (2001, p.3) sees risks to be the predictability of unforeseen results and group risk into business and non-business risks. Iqbal and Llewellyn (2002, p.18), in another breath, classify risk into unregulated risks, the sort that cannot be managed by the decision-maker and regulated or responsive risks which are risks that the decision-maker can influence. Identifying risk as exposure, Schroeck (2002, p.24) put the exposure into two groups: first general exposure that is being complete numbness about the result of making both rational risk choices and their quantification. Second,

specific exposure, which is an objective or slightly subjective likelihood that can be identified with the possible results and subsequently take into consideration some level of quantification. In another instance, In Horcher (2005, p.24) views risk is the likelihood of loss while the exposure is the possibility of losing.

Although several authors have used the different perspectives of the term 'risk' as a part of several studies, this study considers risk as vulnerability, exposure, and volatility influencing deviation from an expected result.

2.2.2 Banking Risks

The movement of banks into off-balance-sheet banking has led to more risky and highly regulated business (Lastra, 2004). Studies have put forward many solutions to address these problems. For example, risk disclosure is currently one of the most widely adopted methods to monitor and manage banking risk. However, the adequacies of risk disclosures of banks have become a controversial issue in the global financial market. The approach to regulation and supervision has changed dramatically to enhance risk disclosure.

Not only does a category of risk increase its uncertainty, but it also tends to have effects across other types of risk. Besides, it leads to banking operation volatility, causing it to become more complex. Consequently, banks inevitably are faced by increased emergence of systemic risk (Paulet, 2011).

According to Bessis (2002, p.11), banking risk is an occurrence that hurt earnings and the cost of capital of a bank. Banks encounter various risks when giving banking services. To manage risks

effectively, banks group risks into four fundamental classes: business risk, financial risk, operational risk, and event risk (Greuning & Bratanovic, 2003; El Tiby, 2011).

Some studies do not arrange banking risks as indicated by these four classes but concentrate on the underlying risks which are caused by market movement or fluctuations in economic circumstances. Examples of these risks are capital adequacy risk, currency risk, liquidity risk, market risk, credit risk, and operational risk (Bessis, 2002; Greuning & Bratanovic, 2003).

Generally, there are seven essential classes of risks within the banking sector. These are credit risk, solvency risk, market risk, interest rate risk, liquidity risk, exchange rate risk, and operational risk (Bessis, 2002; Greuning & Bratanovic, 2003). These risks have accelerated the requirement for the capacity of risk estimation and management. Therefore, the position of bank regulators is to improve and screen the regulatory structures to facilitate effective banking risk management. The Basel Committee has issued numerous articles on risk management policies and frameworks for banking risks and has encouraged their associate countries to appropriate these techniques in their respective nations.

2.2.3 Risk Disclosure

Risk disclosure issues have gotten to a significant level in banking, and the critical part of the debate now is how risk disclosure should be executed (Conti & Mauri, 2008). The agency relationship existing between management and investors indicates that investors rely on the banks to put in place an effective risk management and control framework that can improve the worth of investors (Murugesu & Santhapparaj, 2010).

According to Ismail and Rahman (2011), institutional investors hold a large number of shares in banks and can reduce agency problems. Aside from institutional investors, other stakeholders that have an impact on risk disclosure. These include regulators, bondholders, depositors, counterparties, other banks, and the public (Greuning & Bratanovic, 2009).

Several researchers have expressed sentiment on risk disclosure bearing in mind the aim of creating a framework for their study. Linsley and Shrive (2006, p.3) specify risk as "disclosures if it informs the reader of any opportunity or prospect, or of any hazard, risk, harm, threat or exposure, that has an impact on the company now or in the future. It also comprises the management of any such opportunity, prospect, hazard, harm, the threat of exposure." Linsley and Shrives (2006) perspective of risk disclosure indicates an expanded view of risk disclosure involving good and bad information as well as forward-looking and past information.

Similarly, Hassan (2009 p.669) finds risk disclosure to be the communication of good and bad information to business uncertainty. Hassan (2009) gives an extensive view of risk disclosure by including management appraisals, judgments, and market-based accounting principles (derivative hedging, impairment, fair value, and financial instruments).

Risk disclosures from Dobler (2008, p.185) perspective are that which involve information on the distribution of banks' future cash flows. The assertion comprises verifiable disclosure and non-verifiable disclosure. Homölle (2009) specifies that risk disclosure of banks is the type of disclosures that offers stakeholders of a bank an idea about the riskiness of bank assets and the distribution characteristic of future assets of a bank. Focusing on the risk disclosures espousals put forward by these authors, the study considers risk disclosure as the reporting of risk and uncertainty

through information on multidimensional groups involving, disclosure of good/ neutral/bad news, forward-looking/past information and factuality/perception risk information.

2.2.4 Importance of Risk Disclosures

Transparency is a vital risk management tool in banks. It empowers the bank to perform better and to ensure a good deal for its stakeholders (Deumes, 2008). Transparency is the foundation of financial reporting and therefore impact investors positively (Abraham & Cox, 2007).

The drive for risk disclosure comes as a result of increased challenges in business, the aim of promoting transparency, and enhancing disclosures to reducing information asymmetry. Also, risk disclosure has some advantages for investors, analysts, and other stakeholders (Lajili & Zéghal, 2005). Linsley and Shrives (2005b) warn that merely disclosing risk does not bring openness if it omits vital information for the stakeholders. Increased disclosure boosts the market participants' capacity and fosters a robust banking practice.

The Basel committee in 1998 published an article on "enhancing bank transparency." This article suggests that beneficial information increases openness. It indicates that a public release of timely and reliable information helps stakeholders correctly appraise a bank's overall performance and financial condition, its enterprise activities and the risk associated with these activities (BCBS, 1998). The article, however, offers some qualitative characteristics of information, which enhance banks' transparency. They identified these qualitative characteristics as reliability, relevance, timeliness, materiality, comprehensiveness, and comparability.

Horcher (2005) reveals that providing specific information, which is dependable, accessible, timely, accurate, consistent, and suitable, will help satisfy the information needs of diverse users.

Greuning and Bratanovic (2003) further argue that supplying beneficial information hinges on cost and benefit that information produced as well as leveraging on qualitative characteristics of information to guarantee that such information is good enough for the bank's specific environment.

Besides, the Basel committee being mindful of the fact that market discipline can positively improve the banking industry installed pillar 3 in Basel II to gain a greater disclosure in banks to fortify bank stability and to encourage enough bank disclosure. Market discipline works effectively if three conditions exist being: market players' understanding of risk, their ability to assess the cost of risk in banking, and enough information to estimate how risky a bank's business is (Nier & Baumann, 2006).

Few studies have looked at the risk disclosure usefulness. For instance, Beretta and Bozzolan (2004) show that investors require an extensive risk disclosure to help improve their funding decision. This requirement consists of implementing an effective risk management system to impact banks' strategy. Lajili and Zéghal (2005) also emphasize that risk disclosure provides guidelines for assessing directors' effectiveness by relating firm-level value to growth, as well as relating buying and selling of volume sensitivity to various types of risks. Poshakwale and Courtis (2005) reveal that disclosure by firms reduces uncertainty, attracts long-term funding, and reduces the cost of equity capital. They additionally indicate that beneficial disclosures lessen doubts and decrease its anticipated risk.

Murugesu and Santhapparaj (2010) suggest that banks consider the trade-off between the benefit of the reduced cost of capital and greater disclosure when disclosing risk information. Helbok and Wagner (2006) basing their argument on this trade-off, observe that banks that are less profitable and have smaller capital adequacy ratio disclose more risks. They do this to convince the

stakeholders that they have effectively handle their operational risks. Well-capitalized banks, which outsiders believe are not likely to collapse, generally tend to supply less risk information. Therefore, stakeholders are a vital tool when thinking about the cost and benefit trade-off of risk disclosure. They guarantee that banks are working in the pursuits of their stakeholders.

Risk disclosure abridges the information asymmetry existing between knowledgeable and unknowledgeable investors (Poskitt, 2005). Iatridis (2008) determines that a decline in uncertainty and information asymmetry could deliver meaningful conversations among managers and different related concerned parties (debtors, shareholders, depositors, financial analysts, and regulators). Therefore, risk disclosure tends to lessen agency costs by setting a tracking mechanism, which influences the potential of stakeholders to screen and evaluate the changes taking place in a bank.

A satisfactory disclosure provides a market signal of the bank's behavior, which is beneficial to regulators entrusted with the responsibility of decreasing banks' risk exposure (Oliveira et al., 2011c). Nevertheless, risk disclosure needs to be taken not into consideration as a one-off tool to reduce information asymmetry without incorporating the entire mechanism of managing risks (Conti & Mauri, 2008). Therefore, the risk disclosure of a bank helps the bank reflect on risk management strength and the regulatory requirement (Murugesu & Santhapparaj, 2010).

Relating to the above discussions, it is undoubtedly clear that risk disclosure practice is useful to both the stakeholders and the bank. However, when disclosing risk, a balance must be a strike between information that is useful and information that causes an overrun on the bank, especially in emerging markets.

2.3 Corporate Governance

The Cadbury committee (1992) deems corporate governance as a mechanism for directing and controlling companies. It includes a set of relationships between duties of the board for managing their firms and the functions of shareholders have in appointing these directors and auditors. Organization for Economic Co-operation and Development (OECD) definition of corporate governance, which is recognized around the world and identified as a benchmark for good corporate governance, states that:

> *Corporate governance includes a set of relationships between enterprise's control, its board, its shareholders, and different stakeholders. Corporate governance additionally presents the shape of setting the objectives of the enterprise, and determining the means of attaining those targets and tracking overall performance. Good corporate governance must offer proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, help to provide a level of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth. (OECD, 2004 p.11).*

Comparing the definition with that of Cadbury committee's view of corporate governance the OECD included other stakeholders' functions, the connectivity among individuals within the governance system, and the monitoring tool of an organization's targets. The Basel committee used this definition to broaden the concepts of corporate governance (BCBS, 2010a).

2.3.1 Corporate Governance in Ghana

Ghana's corporate governance is dissimilar to that of countries like the US, UK and South Africa in that Ghana's corporate governance framework is not single. Instead, the rules that govern the relationship amongst a business' stakeholders in Ghana are in bits and portions in distinctive regulatory documents therefore, there is no uniform set of corporate governance standards for companies in Ghana.

2.3.2 The Companies Act 1963 (Act 179)

The companies act carries some corporate governance provisions that all firms are required to adhere to them. These provisions consist of at the variety, the appointment, obligations, remuneration, and removal of directors, shareholder meetings, rights and appointments of shareholders, duties, powers, emoluments, and removal of auditors. Nevertheless, these provisions in the act have not seen an update since 1963. Hence, deemed to have misplaced touch with the dynamic nature of global operations (Assenso-Okofo et al., 2011).

2.3.3 Corporate Governance Regulations in Banking Acts and Directives

In addition to the requirements of the Companies Code, banks need to comply with corporate governance principles set out in the Banking Act, 2004 (Act 673), as amended by the banking act 2007 (Act 738) and directives issued by the Bank of Ghana from time to time. Part v of the banking act, 2004 (Act 673), contains the corporate governance principles of the banking act. They include disapproval of transfer of shares, transfer of shares affecting significant shareholding, and changes in the controlling interests, disqualification of officers, directors, or employees.

2.3.4 Other Corporate Governance Codes in Ghana

The study also identifies voluntary corporate governance codes in Ghana. These include manual on corporate governance issued by the Private Enterprises Foundation (PEF), the Institute of

Directors (IOD) and the Security and Exchange Commission (SEC) (guidelines relating to good corporate governance practices). The SEC based their recommendations primarily on OECD standards. Banks do not typically adhere to these codes because they have little popularity in Ghana. The lack of adherence to these voluntary corporate governance codes is not surprising, given that even statutory legal guidelines in Ghana ordinarily suffer from weaknesses in compliance (Aboagye-Otchere, 2014).

2.4 Theoretical Review

Several relevant studies have defined the reasons behind risk disclosure. For instance, Amran *et al.* (2009) employ the stakeholder theory to observe risk management reporting. At the same time, Taylor *et al*. (2010) argue that agency theory presents an improved framework for analyzing financial risk management disclosure within the annual reports of firms listed on Australia's stock exchange. Other writers have recommended an aggregate of more than one theory to obtain a better understanding of corporate disclosures (Brown & Deegan, 1998; Elzahar & Hussainey, 2012; Oliveira *et al.*, 2011b). However, Abraham and Cox (2007), and Taylor *et al.* (2010) rent agency theory singly to examine risk disclosure. The study employs the institutional agency theory to investigate the effect of corporate governance on risk disclosure of banks in Ghana.

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2.4.1 Agency Theory

Agency theory reveals and captures the relationship existing between an agent and a principal. The root of the agency theory is in the premise that there is a separation between ownership and control. The agent seeks to maximize his/her interest at the expense of the principal who owns the business. Therefore, the principal tries to put in mechanisms that align the goal of the agent to theirs. In agency theory, one party (the principal) authorizes the other (the agent) to carry out an activity in

their stead, and the choices of the agent affect principal's well-being (Eisenhardt, 1989; Jensen & Meckling, 1976; Saam, 2007; Wright et al., 2001).

Mitnick (1973), credited with the institutional agency theory, views the agent as having a set of choices. This basket of choice contains the agent's self-goal and other goals. The agent has the discretion to select from this set of choices. An agent without a fiduciary relation will choose an option that seeks to maximize his personal goals. In reducing this, the principal put in policing mechanisms to limit the discretionary choice of the agent.

An agency problem occurs when the agent works in their interest in preference to the best interest of the principal. Therefore the agent benefit at the expense of the principal (Ness & Mirza, 1991). Ness and Mirza (1991) refer to it as an agency cost. Concerning agency theory, there are three problems relating to the agency relationship. First, the agency problem of conflict occurs when the interest of the agent conflict with that of the principal (Eisenhardt, 1989; Wright et al., 2001; Saam, 2007). Second, the agency problem of mismatched risk interest occurs when the agent and the principal have a different appetite towards risk (Eisenhardt, 1989; Saam, 2007). Third, the agency problem of information asymmetry occurs when the principal does not get adequate information to affirm the knowledge, intentions, and competences of the agent (Mahaney & Lederer, 2003; Saam, 2007).

Transparency is more important for the banking industry since information asymmetries between insiders and outsiders are much more severe in banks (Furfine, 2001; Morgan, 2002). Studies have improved that bank disclosure (risk disclosure) and transparency benefits banks as well as the financial system (example, Jordan et al., 1999; Tadesse, 2003). Jordan et al. (1999) show that improving bank disclosure during a banking crisis is not only stabilizing, but instead provides conditions for market discipline to work more effectively. Tadesse (2003) provides evidence that

bank disclosures that are more comprehensive, accurate, and timely help mitigate the likelihood of a systematic banking crisis.

In the agency theory of banks, regulators serve as agents of depositors, protecting the depositors and ensuring stability in the financial system. The banks' management represents as agents of the regulators. The regulator holds a fiduciary norm to protect the interest of depositors and ensure a stable financial sector (Mitnick, 1973). The regulator put in measures to control the activities of the banks and the behaviour of the banks' management. One way of doing this is enacting laws and rules to influence the structure of ownership and composition of the board.

Corporate governance of banks is unique. Banks have two unique characteristics that define their governance structure: opaqueness and regulation. First, banks generally are highly opaque. Although information asymmetries exist in all sectors, evidence suggests that information asymmetries between insiders and outsiders are much more severe in banks (Furfine, 2001; Morgan, 2002). The opacity in banks intensifies the agency problem and makes it difficult for diffuse depositors to monitor bank managers and makes it easier for insiders to exploit outside stakeholders.

2.5 Empirical Literature Review

A search of the literature has revealed several empirical studies on corporate governance and risk disclosures relate to listed companies other than banks. There are few studies on the link between risk disclosure and corporate governance relating to banks.

2.5.1 Quantity of Risk Disclosure

Prior studies have oftentimes observed that the amount of risk disclosure has arisen for the duration that they have examined. For instance, Helbok and Wagner (2006) observed a rising trend in the

extent of risk disclosure in the US, Asian, and European banks for the period 1998 to 2001. Bischof (2009) observes a rising trend in risk disclosure quantity in European banks for the duration of 2006 to 2007. Hill and Short (2009) located an increase in the quantity of risk disclosure of IPO in UK for the duration of 1991 to 2003; Pérignon and Smith (2010) further discovered a rising extent of risk disclosure in US banks during 1996 to 2005. Hughes *et al.* (2011) determined a rise in risk disclosure quantity in US banks for the duration of 2007 to 2008.

Some researchers who examined risk disclosure in a year have not been capable of establishing the trend in the volume of risk disclosure, they have discovered a mix association between risk disclosure and some dominant determinants (i.e. IAS/IFRS implementation and firm size) when firms engage in a greater level of disclosure.

Studies like Amran *et. al.* (2009), Beretta and Bozzolan (2004), Linsley and Shrives (2005a), Linsley and Shrives (2006) and Linsley et. al. (2006) found a positive relationship between risk disclosure quantity and firm size (Amran *et al.,* 2009; Beretta & Bozzolan, 2004; Linsley & Shrives, 2005a; Linsley & Shrives, 2006; Linsley *et al.*, 2006). Meanwhile, Oliveira *et al*. (2011b) observed that the European Union's modernization directive and implementation of IAS/IFRS in 2005 did not influence the amount of risk disclosure in Portugal. Nevertheless, Taylor et al. (2010), who test risk disclosure of Australian listed firms in a panel research between 2002 and 2006, argue that IFRS adoption positively affect risk disclosures.

2.5.2 Past and Forward-looking Risk Disclosures

Many research in relation to risk disclosure centre on forward-looking information due to the fact that it can be used to determine the risk that a company faced as well as its future performance (Aljifri & Hussainey, 2007; Beretta & Bozzolan, 2004; Bozzolan *et al.*, 2009; Deumes, 2008; Hill

& Short, 2009; Linsley & Shrives, 2005a, 2005b, 2006; Linsley *et al*., 2006). Even though predictability is the distinctive function of forward-looking disclosure, past information also has its own capabilities. For instance, past information provides insight into the business enterprise's background and its overall performance.

Since the recent fall of several big firms that were observed to have created a false image of having a lower risk and higher profitability (e.g. WorldCom and Enron), relevant disclosure of forward-looking risk information have increased the need for reviewing the conceptual framework on risk disclosure (Deumes, 2008).

There are numerous arguments for disclosing forward-looking risk in the annual report of a firm. First, investors find forward-looking risk disclosure to be beneficial in their funding decision-making (Aljifri & Hussainey, 2007; Linsley & Shrives, 2005a). However, the board may be reluctant to provide this information because, forward-looking information have an inherent risk of uncertainty. Investors may claim that they receive adverse results relying on this information (Linsley & Shrives, 2005a). Consequently, directors prefer historic risk to uncertain future risk when they report to shareholders (Deumes, 2008).

Second, other findings reveal that high level of forward-looking risk disclosure in annual report can improve the capacity of the market to access future income (Aljifri & Hussainey, 2007; Hussainey et al., 2003; Schleicher & Walker, 1999). Gietzmann (2006) provided evidence that forward-looking risk disclosure raises volatility of share prices; but tend to decrease the degree of variability of shareholding in which institutional shareholders invest. Aljifri and Hussainey (2007) in contrast, reveal that there may be problem in forecasting corporate future performance with certainty.

Third, Hussainey *et al*. (2003) indicate that forward looking risk disclosure in the annual report help the market make a better forecast about the company's future income. It is therefore, argued that giving information about forward looking risk might have an effect on a business enterprise's competitive position in the marketplace (Healy & Palepu, 2001; Aljifri & Hussainey, 2007). Nevertheless, Konishi and Ali (2007) found that past risk news was extensively higher than future risk information in Japanese listed firms and that some firms did not disclose any future risk information. Beattie *et al.* (2004) found that forward-looking disclosure were only 813 (6.6%) of the 12293 textual content units studied and forward-looking risk disclosure formed about 7% of the 813 forward looking disclosure. Beretta and Bozzolan (2004) found that Italian firms supply lower forward-looking risk information. But, Linsley and shrives (2006) found that forward-looking risk disclosure was drastically higher than risk disclosure of past information in the context of UK firms and concluded that the espousal of a broad definition of risk may be the reason for this effect.

2.5.3 Good, Bad and Neutral Risk Information

There are usually three directions of disclosures. These have been group into bad risk disclosures, good risk disclosures, and neutral risk disclosures (Hill & Short, 2009; Grey et al., 1995; Linsley & Shrives, 2005a; Linsley et al., 2006). Nevertheless, some previous studies have focused on good and bad risk to look at the patterns of the disclosures without giving indication to neutral risk disclosure (Hassan, 2009; Skinner, 1994; Linsley & Lawrence, 2007; Linsley & Shrives, 2006; Shin, 2006; Suijs, 2007).

Bad and good risk disclosures are areas for analysts to study the release of risk information. Therefore, the directors need to exercise care when choosing which information to include in the annual report. Usually, firms use good risk disclosures to create a good image (Linsley & Shrives,

2006). Often time, bad risk information tends to be covered (Linsley et al., 2006), and firms postpone its release due to the fact it could raise the level of volatility (Kothari et al., 2009).

Even though good and bad risk information play a crucial role in enhancing the company's risk level, neutral risk information occupies an essential part of risk disclosures in banks' annual reports (Beretta & Bozzolan, 2004; Linsley & Shrives, 2005a; Linsley et al., 2006). Linsley and Shrives (2005a) discover in their research that disclosure level in the UK public firms that 25% of disclosures have been a good risk, 21% of disclosures were a bad risk, and 54% of disclosures were a neutral risk. In comparing Canadian and UK banks, Linsley et al. (2006) found that 25% of disclosures as good disclosures, 21% of disclosures as bad disclosures, and 54% of disclosures as neutral disclosures. Beretta and Bozzolan (2004) found that 4.8% of disclosures as being negatively signed, 10.3% of disclosures as being positively signed, 0.4% as equally signed, and 84.5% as not signed that does not contain any risk information.

Several preceding studies have attempted to provide reasons behind the predominance disclosure of neutral risk. For instance, Suijs (2007) found that companies disclose neutral risk and hide bad and good risks because neutral risk attracts buyers. Kothari et al. (2009) indicate that disclosure of good and bad risks gives market participants extra awareness of risks. It also reflects in the company's cost of capital, stock return volatility, and dispersion in analysts' earnings predictions. It results in situations that cause firms to hide good and bad risks that they deem to be too commercially sensitive (Linsley et al., 2006).

Nevertheless, Lajili and Zeghal (2005) found that firms in Canada engage in downside risk (bad risks). Konishi and Ali (2007) additionally found that firms in Japan disclosed more good risks than bad risks.

2.5.4 Actual or Perceive Risk Disclosure

The quality of risk disclosure of actual and perceive information plays a critical role in communicating to shareholders so that they will affirm the management's decisions. The study by Arnold *et al.* (2011) reveals that the investors primarily base their funding decision on factual news and that they view their subsequent decision as relevant information that incorporates reliable systems to evaluate the future performance of the firm.

Hooper and Pratt (1995) concerning management perception note that the directors convey rhetorical information because they want to preserve trust in the factual information that they report. There is a tendency for rhetorical disclosures to produce large volumes and make disclosures less reliable (Toms, 2002). Companies use rhetorical disclosure to protect their image and to dilute the effect of risk they face. It is unavoidable that annual reports incorporate both factual and perceived information. Actual and perceived information has emerged as a critical issue in risk disclosure.

To category risk disclosure as factual or non-factual information, it is essential to explain these concepts. Campbell and Rahman (2010) define actual risks to be something that has occurred or something verifiable. According to Beattie and Thomson (2007), factual risks is any information that can be verified while; perceived risks deal with pronouncement and unsubstantiated assertion. Santos and García (2006, pp. 86) also outline perceived risks to be the inner sensation that results from a material impression made on our senses, the act of perceiving," or "receiving external images or emotions.

There are various elements used to code factual risks. According to Arnold *et al.* (2011), an adequate control system of an organization prevents misstatements in the financial statements and

therefore considered that factual news is based totally on justifiable information. Toms (2002) indicates that the reliability of information can improve when such information is audited willingly. Nevertheless, Bayou et al. (2011) contend that audited information may include managerial estimation that can perhaps lead to false, deceptive, or untruthful accounting information; that is the demise of Arthur Andersen and the fall of companies like WorldCom, Tyco, global crossing, and Enron (Bayou et al., 2011). Therefore, an audited statement does not signify factuality when linked to deceptive or untruthful accounting information. Nevertheless, financial reports that are audited by an external auditor can be employed to vouch for the integrity for classifying factual news. In other instances, disclosures that are quantified tend to be actual.

Beattie and Thomson (2007) establish that the intellectual capital disclosure of Next Plc in their 2004 financial report presented 51% quantified disclosure, 68% of the quantified disclosures are factual, and roughly 32% of disclosures were neither actual nor quantified. Therefore, nearly all the entire quantified disclosures were actuals. There is little information in the literature about the disclosure of perceived and actual risk.

2.5.4 Corporate Governance and Risk Disclosures

2.5.4.1 Ownership Structure

Ownership structure and corporate culture have a primary effect on corporate governance attitude towards reporting (Beattie *et al.*, 2001). According to Abraham and Cox (2007), ownership structure plays a critical function in risk reporting due to the fact the financial reports are prepared for shareholders by the board. Disclosure studies have applied distinct proxies to the ownership structure. For instance, the number of shareholders, percentage of share ownership by outsiders, managerial, government, foreign, institutions, and family have all been used as a proxy for

ownership structure. The study uses institutional ownership as a proxy for proprietorship because it is capable of exacting pressure on board to disclose more risk information in the annual report (Greuning & Bratanovic, 2009).

The separation of ownership and control characterizes modern businesses (Fama & Jensen, 1983). Owusu-Ansah (1998) indicates that the relationship that exists between ownership structure and disclosure can be clarified by agency theory because of the separation of control and ownership. Firms with high institutional ownership tend to have high agency costs, and owners of such firms give pressure for greater disclosure of risk as part of the monitoring system.

According to Taylor (2011), institutional owners act to reduce information asymmetry by carrying out a monitoring function through a closer association with the management of the company (Fama & Jensen, 1983; Healy & Palepu, 2001). Institutional owners are one of the vital corporate instruments seen to have the ability to restraint management from withholding risk information. Abraham and Cox (2007) found a negative relationship between risk disclosure and long-time period institutional investors but a positive relationship with short-term institutional investors in the UK.

Taylor (2011) observes no relationship between risk disclosure and long-term institutional shareholders in Australia. On the other hand, he found risk disclosure to have a positive relationship with short-term period institutional investors. Institutional owners have complete access to inside information and do not depend on public disclosure. For this reason, they have no incentive to encourage banks to disclose these risks to outside parties. Deumes and Knechel (2008) found a negative relationship between risk disclosure and concentrated ownership. In Ghana, Aboagye *et al.* (2012) observed no connection between disclosure and institutional ownership of listed companies.

2.5.4.2 Board Size

Some studies have examined board size in a voluntary disclosure setting. Cheng and Courtenay (2006) contend that no preponderance of theory exists to signify a relationship between board size and level of voluntary disclosure, and this remains an empirical issue. One theoretical argument is that a large number of directors on the board might bring down the information asymmetry problem (Chen & Jaggi, 2000), and they stimulate disclosure.

Similarly, the number of directors on the board might also affect its control and monitoring of the company's activities (Healy & Palepu, 2001). An increased number of directors on the board boosts its power to supervise and manage the firm wherein risk disclosure might be viewed as one of these factors.

Cheng and Courtenay (2006) argue to the opposite that the larger the size, the less effective it will be at managing and monitoring, resulting in free-rider problem among board members and increased decision-making time (Jensen, 1993). For example, poor communication may additionally bring about an unfavorable effect on disclosure levels and best practices.

2.5.4.3 Board Independence

Fame and Jensen (1983) indicates that the appearance of external directors on the board would possibly cause decreased agency conflicts between shareholders and directors. Shareholders and owners see the presence of external directors on board as a vital management and monitoring tool of corporate governance, supplying the essential check and balance required to improve board efficiency (Barako et al., 2006). Nevertheless, Ho and Wong (2001) indicate that agency theory does not anticipate all directors will enhance accountability and disclosure.

Abraham and Cox (2007) contend that boards with a large number of external directors are in a challenging position to meet investors' interest in transparency and responsibility. They indicated that board composition has incredible significance in the disclosure of risks to owners. They further argue that the balance of internal to external directors might be a pivot to more risk disclosure. Haniffa and Cooke (2002) contend that the presence of independent directors acts as a check and balance tool in improving board effectiveness.

Consequently, greater disclosure occurs if external engage in their monitoring function as opposed to their anticipated monitoring function, and their authority would offer more force to push management to disclose more risk (Haniffa & Cooke, 2002; Eng & Mak, 2003). Once directors are independent, their impartial relationships with management can enhance their position in monitoring disclosure level through unbiased assessment. Empirical evidence on the issue of external directors on risk disclosure is a mix.

2.5.4.4 Audit Committee Independence

Several banks establish audit committees as a unit of internal control and corporate governance system. The audit committee members act for the benefit of the shareholders and on behalf of the directors. According to Terrell and Reed (2003), an audit committee deals with risk management, risk evaluation, and connect financial reporting risk to that effect.

Barako et al. (2006) opine that an audit committee is a monitoring tool that enhances information flow between financial a bank stakeholders and its managers, especially in reporting an environment where the two have a general information need. Forker (1992) indicates that an audit committee is a powerful monitoring tool that enhances disclosure and decreases agency costs.

Ho and Wong (2001) suggest that once an audit committee is composed, particular of external directors. It can decrease the quantity of information concealed. Taylor (2011) observes further

that the agency theory debate indicates that the higher the independence of the audit committee from management, the more it is enabled to work in the interest of stakeholders to reducing information asymmetry. Forker (1992) discovers a positively not significant relationship between the quality of disclosure and audit committees.

Taylor (2011) found a positive relationship between audit committee independence and risk disclosure. Neri (2010) observed an insignificant relationship between the presence of an audit committee and risk disclosure. In the context of Ghana, Aboagye-Ochtere, Badi, and Kwakye (2012) discovered a weak and negative relationship between disclosure and audit committee independence of list companies in Ghana.

2.5.4.5 Risk management committee size

Risk disclosure is an essential point of the risk management committee's functions. The presence of a risk management committee improves risk disclosure practices of banks. Neri (2010) theoretically indicates that the establishment of a risk management committee possibly reveals the importance attached to disclosure and risk management.

Hassan, Saleh, and Abed-Rahman (2008) suggest that the responsibilities of a risk management committee center on the requirement to prioritize and manage risk as well as offer greater risk disclosure to stakeholders to whom they are responsible. Consequently, the study anticipates that the level of risk disclosure will increase in banks with risk management committee structures than banks without them.

2.6 Hypothesis Development

Banks with widespread investors tend to have a higher agency cost, and shareholders of such banks put pressure on the bank to disclose more information as a means of monitoring their investments. On the other hand, concentrated owners have little or no separation from the manager and therefore

have greater access to inside information, and may not rely on public disclosures to monitor their investments. As a result, their disclosure demands to the public are low.

Ownership concentrated or institutional owners of banks tend to have a lower degree of information asymmetry through increased disclosure and have low public demand for risk disclosure. Dispersed ownership leads to individual shareholders having little influence on disclosure policies and practices of the bank (Owusu-Ansah, 1992).

In Ghana, banks are either listed on the Ghana Stock Exchange (GSE) or owned by institutions (comprise government, institutions, and individual shareholders). The latter is an insider, and many cases have representatives on the bank's board. They have access to inside information and do not rely on public disclosures. They may have no incentive to increase the level of disclosures and risk disclosures to outside stakeholders.

The literature reviewed in the area of the effect of institutional ownership on risk disclosures shows different associations. Mohobbot (2005) found no association between the top 10 shareholders and risk disclosures in Japan; in the same vein, Konishi and Ali (2007) and Taylor (2011) conclude that there is no relationship between institutional investors and risk disclosures in Japan and Australia. A study conducted in the Netherlands by Deumes and Knechel (2008) concludes that there is a negative relationship between concentrated ownership and risk disclosures. Likewise, Abraham and Cox (2007) found a negative link between long-term institutional ownership and risk disclosures in the UK. This study argues that the higher the institutional ownership, the lower the risk information disclosed in the corporate annual reports. Based on the above, the study hypothesizes that;

H1: There is a negative relationship between institutional ownership and risk disclosures of banks

Theoretically, an increased number of directors on board tend to reduce information asymmetry (Chenn & Jaggi, 2000) and thereby increase disclosure. The number of directors on the board influences its monitoring and controlling function. An increased number of directors will enhance its monitoring and control of the banks. On the contrary, a large board lessens its effective monitoring of the bank and will reduce disclosure because of free-rider problems, increased decision-making time, and cost of poor communication.

In the context of Ghana, the company code specifies a board size of not less than three directors. The companies code does not specify the maximum number of directors on board. Besides, the banking acts, SEC regulations as well as GSE listing rules are all silent on the minimum and maximum directors' appointment to the board.

Studies like Akharudinn, Hossain, and Yao (2009) and Abeysekera (2010) have concluded that a positive relationship exists between the number of directors on the board and disclosures. Studies similar to Cheng and Courtenay (2006) found no link between the number of directors on the board and disclosures. These studies did not necessarily concentrate on risk disclosures. The study hypothesizes that

H2: A positive relationship exists between board size and risk disclosure of banks

According to Fama and Jensen (1983), the presence of the external directors on the board of a bank reduces agency conflicts between management and investors. Outside directors are regarded as effective at monitoring and controlling management in corporate governance and thus provide checks and balances to enhance board effectiveness (Barako *et al*., 2006). Concerning agency theory, not all classes of directors enhance disclosure and accountability (Ho & Wong, 2008). Agency theory indicates that the composition of external and internal directors protects corporate stakeholders and leads to accountability and transparency of which reflects in disclosures in

corporate annual reports. Outside directors reduce agency problems and ensure more disclosures of risks of the banks (Abraham & Cox, 2007).

In Ghana, the GSE listing rules and bank of Ghana regulations stipulate the proportion of the members on the board that should be external directors. Some studies have concluded that no relationship exists between board independence and risk disclosures. Lopes and Rodrigues (2007) found that there is no connection between non-executive directors on bank boards and risk disclosures, likewise Deumes and Knechel (2008). Ho and Wong equally found no link between board independence and risk disclosure. Other studies like Abraham and Cox (2007); and Eng and Mak (2003) found a positive and negative relationship on the nature of the relationship between the two variables in the context. There seem to be mixed findings on the relationship between board independence and risk disclosures. This study thus posits that;

H3: There is a positive relationship between board independence and risk disclosures of banks

Agency theory and corporate governance theory could explain how audit committee influence disclosures especially risk disclosures in corporate annual reports. Barako *et al.* (2006) indicate that the audit committee is an important monitoring tool that enhances information flow between owners and managers. According to Ho and Wong (2001), an audit committee, which is composed mainly of non-executive directors, serves as an efficient monitoring tool to curb management from withholding information such as those on risks.

Agency theory implies that the more independent the audit committee is, the more it is to reduce information asymmetry (Taylor, 2011). Taylor (2011) further indicates that the audit committee has two essential roles. First, to establish and manage internal controls to safeguard risks. Second,

to ensure the integrity of financial reports and other owner related disclosures in corporate annual reports.

In the context of Ghana, the company code mandates companies (banks) to establish an audit committee, and the composition of the committee should include non-executive directors. The more function of the committee is to liaise with the internal and external auditors and to ensure the integrity of the financial statements. There are different conclusions reached by scholars about the cause-effect of the audit committee on risk disclosures. Many studies like Ho and Wong (2001), Bararko, Hancock, and Izan (2006) have found a positive relationship between audit committee size and disclosures. In the same vein, Taylor (2011) concluded that there is a positive relationship between the audit committee and risk disclosures. In another paper, Neri (2010) concludes that there no relationship exists between the audit committee and risk disclosures. Based on the findings of these studies, this current study hypothesizes that;

H4: There is a positive relationship between audit committee size and risk disclosures of banks

A risk management system is a monitoring tool to mitigate aspects of agency problems like moral hazard (Kajuter, Linsley, and Wood 2008). Information asymmetry also exists between insiders and outsiders of a bank relating to risks banks face or will face in the future and how these risks are measured and managed. A risk management system helps to monitor the compliance of the contractual agreements and reduce information asymmetry existing between managers and stakeholders (Kajuter, 2006). The existent of an efficient and effective risk management system will ensure a greater risk disclosure. Theoretically, assigning risk management committee in bank management is likely to attach more importance to risk management and its related disclosures (Neri, 2010). According to Hassan, Saleh, and Abd Rahman (2010), a risk management committee

has the responsibility of identifying, prioritizing, managing, and providing disclosures about the risk to investors. Banks with risk management committees disclose more risk than banks without them.

In Ghana, banks were directed by Bank of Ghana in 2009 to adopt Basel II, and one of the recommendations of Basel II is the establishment of a board sub-committee ensuring that responsibility for risks lies at the board level. This committee was to reevaluate the bank's processes, procedures, and systems and to critically evaluates the risk profile of the bank to ensure that the banks operate to meet the standards set by the Basel II accord.

There are different conclusions drawn by scholars about the cause-effect of the risk management committee on risk disclosures. Studies like Hassan, Saleh, and Abd Rahman (2008), Bealy, Clune, and Hermanson (2005) have found a positive relationship between risk management committee and risk disclosures. Neri (2010) concludes that there is no relationship between the risk management committee size and risk disclosures. The results seem uncertain about the relationship. Following the results of previous studies, the study hypothesizes that:

H5: There is a positive relationship between risk management committee size and risk disclosure of banks

2.7 Conceptual Framework of the Study

Based on the agency theory and the subsequent development of the hypothesis in this study. Figure 2.1 represents the conceptual framework of this study, and it illustrates how corporate governance relates to risk disclosures of banks. The objective of the study is to find whether corporate governance affects banks' risk disclosures. Other variables, aside governance factors, affect risk disclosures. These variables include the bank-specific variables such as the bank size, return on assets, auditor type, and others. The study controls these variables in the analysis.

The study hypothesizes corporate governance mechanisms and bank-specific factors to impact banks' risk disclosures. Therefore, this study conceptualizes bank risk disclosure level as the dependent variable and bank governance variables, the independent variables. The independent variables comprising of institutional ownership, board size, independent directors, audit committee independence, and risk management committee size, likewise bank-specific variables include bank size, profitability, auditor type, and IFRS adoption.

Figure 2.1: Conceptual Framework

Source: Author's Estimation, 2016

2.6 Chapter Summary

The chapter reviews extant empirical literature and theories on corporate governance and risk disclosures about the main objectives of the research. The conceptual framework is advanced for the research established on the review conducted and depicted in figure 2.1. The framework diagram suggested that risk disclosures are affected by several factors.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The chapter outlines the research methods and data adopted for the study. It discusses the research philosophy and approach embraced for this study. Specifically, it discusses and presents the sample and data source as well as model specification and estimation strategies used in carrying out the research.

3.2 Research Philosophy and Approach

There are different philosophical stances or research paradigms that researchers use when conducting a study. According to Easterby, Thorpe, and Jackson (2002), researchers need to understand the philosophical issues of a study to clarify the research design for the study. Hussey and Hussey (1997) explained research philosophy as a set of scientific procedures used in research; its on the researcher's view of the world and the nature knowledge. There are three aspects of the

research paradigm: ontology, epistemology, and methodology. Ontology is the researcher's view about what knowledge is, while epistemology is about how knowledge is acquired (Creswell, 2003). The ontological and epistemological positions of the researcher invariably determine the methodology for a study.

Saunders, Lewis, and Thornhill (2003) reveal the two main research paradigms that exist in research: positivism and interpretivism. The positivist employs a scientific procedure in collecting data and testing the relationship between the variables from a data to arrive at a conclusion. Interpretivism, on the other hand, studies the experiences of different personalities in different circumstances and cultures to understand their realities,. According to Saunders *et al.* (2003), positivist research is deductive, employs quantitative data, and examines relationships between variables and draws conclusions based on hypotheses. The approach views theories as a vital aspect of empirical research and discusses their roles in the study.

Creswell (2012) identifies two main methodological stance used in carrying out research. These are the qualitative approach and quantitative approach. Usually, the approach adopted depends on the philosophy of the researcher. The positivist in conducting research mostly uses the quantitative approach. The quantitative approach begins with a theory and sets hypotheses, collects data, and uses statistical tests to test the hypotheses to achieve set objectives of the research. Using this approach, the researcher first identifies theory, hypothesize, and devise empirical tests to reject or accept the hypotheses.

This study adopts a positivist paradigm. So it employs a quantitative approach in collecting the data and analyzing them. A review of the existing literature was done to help formulate and test research hypotheses to establish the connection between the dependent and independent variables. The study was explanatory in that it sought to clarify the phenomena to understand the link between

corporate governance and risk disclosures of banks in Ghana. An archival strategy was adopted (Saunders *et al.,* 2007) to test the relationships between various latent variables and helped in providing statistical evidence of the effects of corporate governance on risk disclosure of banks in Ghana.

3.4 Population and Sample Size

Due to the perceived restrictions of the study, in terms of time and extreme need to follow a scientific approach to research and to eliminate errors in analysis, the researcher concentrates on a sample. The research population comprises of all universal banks in Ghana. There were 24 banks in Ghana at the end of 2017. The study made use of 21 banks out of the 24 banks at the end of 2017 to data to analyze the trend of various bank risk disclosures. The study excludes three (3) banks comprising Intercontinental Bank, BPI Bank, and The Trust bank for lack of available data. Out of the selected banks, 11 banks are foreign banks, while 10 are local banks. Also, six (6) of the banks sampled are listed, while 15 are unlisted as at the end of 2017. The breakdown of the sampled banks is present in appendix 2.

The year 2007 was chosen as the beginning year because it represents the year with a large number of the selected banks in operation and that their annual reports exist for the analysis. The year 2014 annual reports were the most current for the study. Hence, the sampled data includes annual reports of banks that were operating in Ghana within the period 2007 to 2014. The main criterion used for the sampling of banks was purposive sampling; based on availability of data. Banks included in the sample are set out in appendix 3.

3.6 Sources of Data and Time Period

The study used the annual reports of 21 banks in Ghana, which were analyzed over an eight (8) year period (from 2007 to 2014) to obtain an observation of 168 (see Matsumura & Shi, 2006). The data gathering approach was archival. The study uses annual reports because it serves a means of communication between management and diverse stakeholders. It also provides general-purpose information that seeks to meet the information needs of different stakeholders of banks in Ghana (Beretta and Bozzolan, 2004).

The source of data for the study is the annual reports of banks in Ghana. They were obtained from the banking supervision department of Bank of Ghana and the banks' website. The data were gathered for the period 2007 to 2014.

3.7 Content Analysis

The study adopted the content analysis technique to derive the risk disclosures scores. This approach has been used by various previous studies on corporate annual reports, as it is a sound technique to gauge the trends in reporting (Guthrie *et al*., 2004). Content analysis is a technique that is empirically oriented (Krippendorff, 2004), and its continuous usage has made it a widely used research technique applied in examining the frequency and kind of disclosures (Ntim *et al*., 2013). The content analysis approach includes codifying of written texts into various categories based on chosen standards or criteria (Guthrie *et al.,* 2004).

In clarifying further, content analysis involves codifying of written texts (qualitative and quantitative facts) into specific pre-characterized groups/classes primarily based on selected criteria as a way to infer the dimensions in the reporting and presentation of information (Ntim *et al*., 2013; Linsley & Shrive, 2006).

There are several units of analysis of risk reporting, the three most important ones being word, sentence, and paragraph counts. Grey *et al.* (1995) contend that using words as a coding approach

has the benefit of making the investigation more exclusive, and sentences are favored in written communication if the assessment is to induce meaning. According to Milne and Adler (1999), using sentences for coding and estimation provides entire, dependable, and significant statistics to promote additional analysis. Concerning paragraphing, they contend that it is more proper than word count in drawing inductions (Guthrie *et al*., 2004).

This research used sentences because the recording unit is consistent with previous studies (Amran *et al.,* 2009; Elzahar & Hussainey, 2012; Linsley & Shrives, 2006; Ntim *et al*., 2013; Oliveira *et al*., 2011). It merges the advantages and irons out the disadvantages of both word and paragraph counts. Linsley and Shrives (2003) additionally selecting sentences as the recording unit conquered troubles associated with the use of word or number of pages, which, according to them, seems to feature needless unreliability. The logarithm of sentence counted was used to normalize the data (Miihkinen, 2012; 2013; Ntim *et al*., 2013).

In investigating bank risk reporting in the corporate annual report, repeated information was taken into consideration or recorded once. The risk disclosure of a bank obtained is in line with the study of Ntim *et al.* (2013). In adapting the framework, a perusal of the IFRS 7, Bank of Ghana statutory audit disclosure, Basel 2 pillar three, companies code 1963 (Act 179), and banking acts allowed the researcher to understand risk reporting of banks in Ghana. The basis of the risk disclosure framework used is in line with that of Rattanataipop (2013), regulations, or legislative instruments. A framework for risk disclosure is adopted to ensure that no relevant risk is overlooked and also to make it easy for comparing risk disclosure of a bank to another. The risk disclosure framework used in the study is in appendix 1.

The definitions for coding risk disclosure as good, neutral, or bad adopted were from Rattanataipop (2013). Good risk disclosures are statements of risk above the statutory minimal involving specific details on the creditability of the bank. It also includes all sentences that give credit to the business of the bank. Examples include upbeat evaluation, communication, or statements. Neutral risk disclosure is a declaration of coverage or purpose within statutory minimal and not using the information of how and what or announcement of facts whose credit or discredit to the bank are not always apparent. Bad risk disclosures consist of any declaration which displays or replicate discredit on the bank; involving, for instance, numbers that are made redundant (if redundancy is spoken of as a human act rather than a monetary act), any growth in accidents or reviews of detrimental performance towards the goals, and/or tolerances of the bank.

Forward-looking and past risk disclosures coded follow the definitions adopted by Rattanataipop (2013). Forward-looking risk disclosure refers to the future announcement and conditional announcement. Future risk information is phrases that have future tense or similar inflection; examples assume, should, will, soon, possible, shall, subsequent, accurate, proceed, and versions of these words, or identical expressions. The predictive announcement includes information on plans, projections, and management appraisals; examples of predictive words or phrases include plan, target, aim, goal, desire, agenda, intention, consider, estimate, intend, undertaking, and variations of these words or identical expressions. Conditional announcements are risk disclosure sentences stated alternatively, for example, including changed in, relied upon, if, centered on, assumption, circumstance, uncertain, fluctuation in, and versions of these phrases or identical expressions. Past risk disclosure coded include sentences that involve the past tense.

The coding definitions for actual and perceived risk disclosure adopted are from Rattanataipop (2013). Actual risk disclosure was coded based on information reported as fact, an objective in

nature, and/or can be verified instantly. Perceived news risk disclosure was also coded based on information that is subjective and/or cannot be verified immediately.

3.6 Measurement of Variables

The following variables are measured and used in this study.

The dependent variable for this study is risk disclosures score of banks in Ghana. Risk disclosure scores were aggregated and therefore no distinction was made between mandatory and voluntary risk disclosures. Bank risk reporting is determined through content analysis. The use of this approach widely has made it one of more generally used research techniques linked to examining recurrence and the form of risk disclosure (Linsley & Shrives, 2006). This technique is used to examine the annual reports of banks to determine the kind of risk information disclosed about the diverse traits or sub-classes of risks.

Corporate governance structures, which are the explanatory variables in the study, encompass institutional ownership, board size, board independence, audit committee independence and the size of risk management committee. Data on these corporate governance indicators were obtained from the banks' annual reports.

Institutional ownership refers to institutional investors. As an example, different banks, investment funds and companies own a percentage of shares in banks. Many firms supplied bulletins on the range of shares owned by other institutions in their corporate annual reports.

Two variables (board size and board independence) measure board structure. Banks provided data on those variables in their annual report. Further, audit committee independence measures the size of independence directors on the audit committee. This degree is introduced in the study to cater for the banks that have hooked up to a separate risk management committee. Risk management

committee size variable measures the number of directors at the risk management committee of the board of directors.

Other control variables that influence the relationship of interest namely; return on assets, bank size, auditor type, and IFRS adoption are considered. *Return on assets* (*ROA*) is computed as the proportion of net profit before interest and tax to total assets. Data is sourced from the annual reports of banks to compute *return on assets (ROA)*. *Bank size (BKSIZE)* is proxy as logarithm of total assets. The figure for bank size is also obtained from the annual report of banks in Ghana. *Auditor type (AUDTPY)* is a dummy variable, which is measured as one if the bank is audited by a big 4 audit firm and zero if otherwise. *IFRS adoption (IFRSadopt)* is also Dummy variable that takes the value of one if IFRS is adopted by the bank; and zero otherwise. Data for audit type and IFRS adaptation are sourced from the annual reports of banks in Ghana and Ghana banking survey.

Table 3 1 Operational Definitions of Variables

Variable	Acronym	Operational Definition	Data Source
Dependent Variables			
Bank Risk Disclosure	BRD	Natural log of Risk disclosure score	Bank Annual Report
Independent Variables			
Institutional Ownership	IOWN	Number of shares held by biggest 20 institutions on the overall shares in the firm	Bank Annual Report
Board Size	BRSIZE	the number of directors at the board of the bank	Bank Annual Report
Board Independence	BINDI	Number of external directors to the total number of directors on the board	Bank Annual Report
Audit Committee Independence	ACINDI	Number of independence directors on the audit committee	Bank Annual Report
Risk Management Committee Size	RMCs	Total number of directors on the risk management committee of the bank	Bank Annual Report
Control Variables			
Return on Assets (Profitability)	ROA	Proportion of profit before interest and tax on total assets	Bank Annual Report

Bank size	BKSIZE	Logarithm of the total assets	Bank Annual Report
Auditor Type	AUDTYP	Dummy variable that takes the value of one if the auditor is a BIG 4; and zero otherwise	Bank Annual Report
IFRS Adoption	IFRSadopt	Dummy variable that takes the value of one if IFRS is adopted by the bank; and zero otherwise	Bank Annual Report
Local or Foreign Bank	LFB	Dummy variable that takes the value of one if the bank is a foreign bank and zero otherwise	Bank Annual Report and the Ghana Banking Survey
Listed or Non listed Bank	LNB	Dummy variable taking the value of one if the bank is listed and zero otherwise	Bank Annual Report and Ghana Banking Survey

Source: Researcher's Own Estimation 2017

3.9 Model Specification

The models utilized a panel data structure, one that is most appropriate to the sampled data. This aids in solving the issue of omitted variables and at the same time, helps obtain consistent estimators (Wooldridge, 2003). The regression tests performed to formally test the hypotheses are based on the models specified generally by the equation.

The model is specified as

$$BRD_{it} = \beta_o + \beta_1 IOWN_{it} + \beta_2 BRSIZE_{it} + \beta_3 BINDI_{it} + \beta_4 ACINDI_{it} + \beta_5 RMC_{it} + \beta_6 CCG_{it} + \beta_7 BKSIZE_{it} + \beta_8 ROA_{it} + \beta_9 AUDTYP_{it} + \beta_{10} IFRSadopt_{it} + \beta_{11} LFB_{it} + \beta_{12} LNB_{it} + \varepsilon_{it}$$

Where BRD_{it} represents the Bank risk disclosure of a bank i at period t. Also β_0, β_1, β_2, β_3, β_4, β_5, β_6, β_7, β_8, β_9, β_{10}, β_{11} and β_{12} are coefficient terms while the corporate governance variables of bank i at period t includes institutional ownership (*IOWN*), board size (*BRSIZE*), board independence (*BINDI)*, audit committee independence (*ACINDI*) risk management committee size

(*RMCs)* of bank i at period t and composite corporate governance (CCG) of bank i at period t. The bank-specific control variables of bank i at period t that affect the bank risk disclosure include bank size (*BKSIZE*), returns on Asset (*ROA*), auditor type (*AUDTYP*) and IFRS adoption (*IFRSadopt*), the local or foreign bank (*LFB),* listed or non-listed bank (*LNB)* and ε_{it} represent the idiosyncratic error.

3.7 Estimation Strategy

The main objective of the study was to investigate the impact of corporate governance on bank risk disclosure and was analyzed using panel regression. The study utilized a panel data structure. The method of estimation generally can be parametric or non-parametric. The choice of an appropriate technique of estimation relies largely on the characteristics of the data. As a result, the assumptions regarding panel data regression tested are to determine the appropriate estimation strategy to run the model.

The study made use of the Panel Corrected Standard Errors (PCSE) model of Ordinary Least Squares (OLS), which is robust to heteroscedasticity and autocorrelation. The choice of this estimation technique was in line with the nature of the panel data.

Other robust estimation tests performed included the test for heteroscedasticity and the test for autocorrelation. The problem of heteroskedascity arises when the OLS assumption of equal variance (homoscedasticity) is violated. The study adopted the Breusch-Pagan/Cook-Weisberg test for heteroskedascity and the Wooldridge test for autocorrelation. Significant *P*-values were recorded for the Breusch-Pagan/Cook Weisberg test for heteroskedascity and the Wooldridge test for autocorrelation implying the presence of the problem of heteroskedascity and autocorrelation

and hence the adoption of the Panel Corrected Standard Errors model. The Panel Corrected Standard Errors model is employed for the panel regression analysis.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESULTS

4.1 Introduction

This chapter presents analysis of the results. This chapter has subsections as follows: descriptive and summary statistics of all of the variables and the regression results.

4.2 Descriptive Statistics

Table 4.1 shows the descriptive statistics of the dependent variable (risk disclosure). The total risk disclosure average of banks in Ghana is approximately 141 risk sentences with a maximum and minimum risk sentences of 286 and 56. Table 4.1 again indicates a deviation from the risk disclosure average of 47 risk sentences. The mean implies that averagely 141 risk sentences were disclosed by the sampled banks in their annual reports. The average risk sentence of 141 is five times the number of risk categories adopted for the study. This result indicates that averagely a risk category is disclosed five times in the annual report of the sampled banks.

Table 4 1: Descriptive Statistics of Yearly Average Risk Disclosure

Years	Obs	Mean	Std Dev	Max	Min
2007	21	95.29	21.53	135.00	56.00
2008	21	113.62	28.82	178.00	65.00
2009	21	127.62	34.81	203.00	76.00
2010	21	131.14	35.47	233.00	79.00
2011	21	139.52	36.82	254.00	77.00
2012	21	157.19	40.00	243.00	89.00
2013	21	176.48	47.30	277.00	99.00
2014	21	186.95	45.02	286.00	119.00
Total	168	140.98	46.52	286.00	56.00

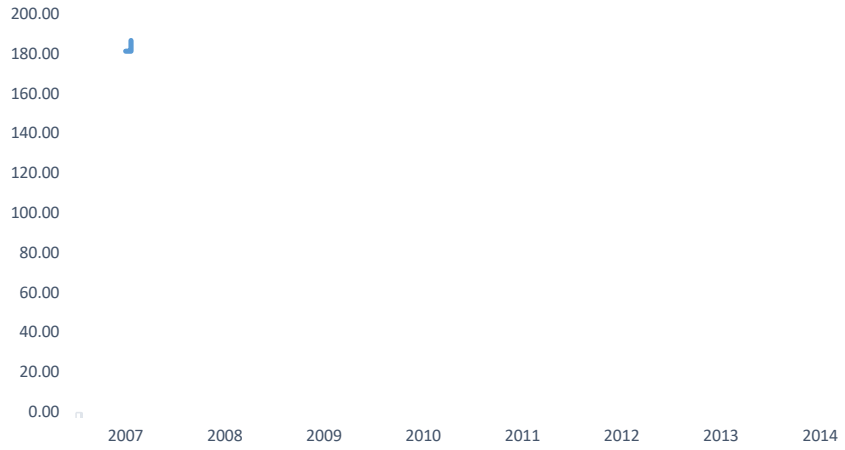
Obs. stand for observation, Std. dev. represent standard deviation, Max is maximum and Min stand for minimum

Source: Annual report of banks and Author's Calculation (2016)

However, the key finding of table 4.1 is the fact that disclosure of risk sentence on average on year by year reveals an increasing trend over the period studied. The number of risk sentences disclosed by banks increased from 95 approximately in 2007 to 189 in 2014. A percentage increase of 92% between 2007 and 2014, indicating almost double risk sentence disclosure of the 2007 figure. The finding suggests that banks are increasingly becoming aware of the importance of risk disclosure practices and therefore engaging in more disclosure of risks in their annual report to stakeholders. This level of awareness and disclosure might have resulted from the lessons of the 2007/2009 global financial crisis, which was caused by poor corporate governance and non-transparent practices of firms. From the figure 4.1, there was a little dip in the mean risk disclosure sentences from 2009 to 2011. It picks up again from 2012 to 2014. The possible reason for this dip might be

the change of government in 2009. Also, the accompanying standard deviation, maximum and minimum values of risk disclosure on year by year revealed an increasing trend. In similar studies, Helbok and Wagner (2006), Bischop (2009), Hill and Short (2009) all found a rising trend in the number of risk disclosures by firms.

Figure 4 1: Trend of Mean Risk Disclosure of Banks



Source: Annual Report of Banks and Author's Calculation (2016)

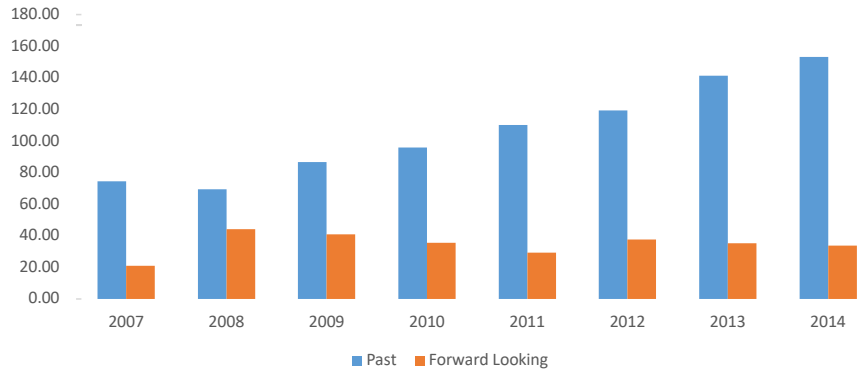
4.2.1 Past and Forward-looking Risk Disclosure

The study generated figure 4.2 to have a view of the trend of past and forward-looking risk disclosure in the annual reports of the sampled banks in Ghana. Figure 4.2 reveals an increasing trend for past risk information, a percentage increase of 5% between the period 2007 and 2014. The result from Figure 4.2 indicates a fluctuating trend for forward-looking risk news of the sampled banks in Ghana between the period of 2007 and 2014.

In total, banks in Ghana disclosed 75% past risk and 25% forward-looking risk in their annual reports between the period of 2007 and 2014. This result indicates that banks in Ghana engage in

two times more of past risk disclosures than forward-looking risk disclosures. In similar studies, Konishi and Ali (2007) found more disclosure of past risks than forward-looking risks in Japanese listed firms.

Figure 4 2: Year on Year Past and Forward-looking Risk Disclosure



Source: Annual report of banks and author's calculation (2016)

The descriptive statistics in table 4.2 representing the overall past and forward-looking risk disclosure reveals that sampled banks disclosed more past risk information than forward-looking risk information. The past risk disclosures stood at 106 approximately while that of forward-looking risk disclosures stood at 35. The standard deviation for past and forward-looking risk information is 39.77 and 11.21.

Also, the number of minimum and maximum risk disclosure representing risk disclosure for past information stood at 29.65 and 234.52, while that of forward-looking information stood at 12.32 and 69.42.

Table 4 2: Summary statistics of overall past and forward looking risk disclosure

Stats	N	Mean	Sd	Min	Max	Skewness	Kurtosis
Past	168	106.29	39.77	39.65	234.52	0.86	3.58

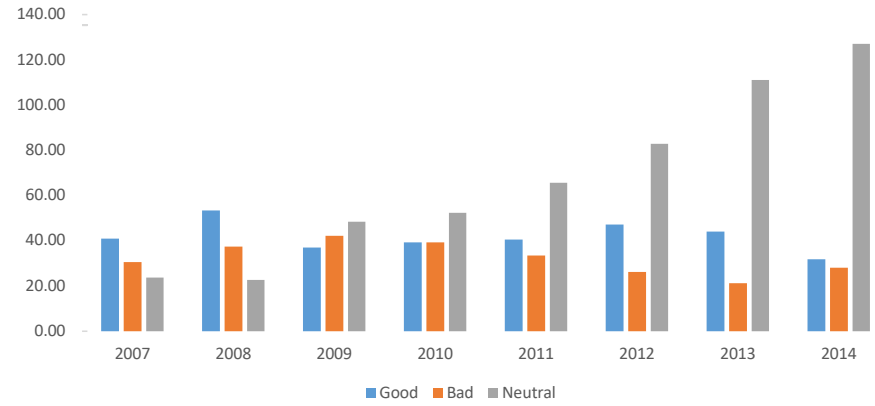
Future	168	34.69	11.21	12.32	69.42	0.58	3.03

Source: Annual Report of Banks and Author's Calculation (2016)

4.2.2 Good, Bad and Neutral Risk Disclosure

The researcher generated figure 4.3 to have a better picture of disclosure trends relating to good, bad, and neutral risk. From figure 4.3, risk disclosures that are neutral are relatively higher than good and bad bank risk disclosures. The bad risk disclosures are relatively the lowest risk disclosed among these risk disclosures. The result shows that banks in Ghana report more neutral risk news than that of good and bad risk news.

Figure 4 3: Year on Year Good, Bad and Neutral Risk Disclosure



Source: Annual Report of Banks and Author's Calculation (2016)

The summary statistics in Table 4.3 shows a higher average for good risk disclosure (42) than that of bad risk disclosure (32). The table indicates a neutral risk disclosure average to be 67. The minimum and maximum good risk disclosure range between 20 and 84, while that of bad risk disclosure news is between 12 and 70. Meanwhile, the minimum and maximum neutral risk disclosure range between 13 and 194. The data is not normal for good, bad, and neutral risk disclosure for the kurtosis.

Table 4 3: Summary Statistics of Overall Good, Bad and Neutral Risk Disclosure

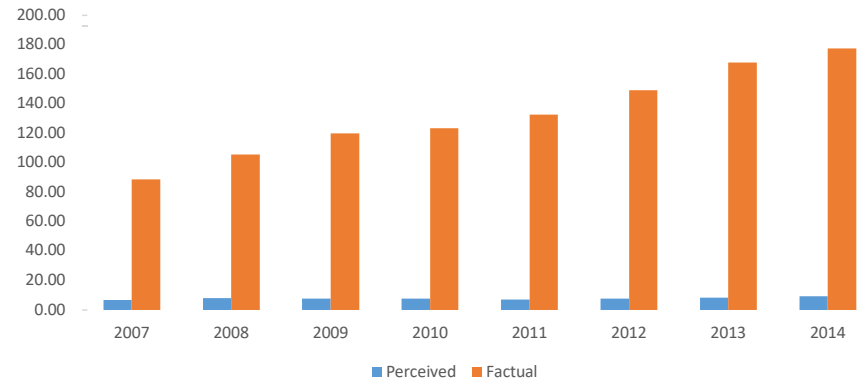
Stats	N	Mean	SD	Min	Max	Skewness	Kurtosis
Good	168	41.78	12.27	20.23	83.66	0.72	3.45
Bad	168	32.31	10.88	11.88	69.90	0.76	3.64
Neutral	168	66.78	40.63	13.00	194.47	0.85	3.15

Source: Annual Report of Banks and Author's Calculation (2016)

4.2.3 Perceived and Actual Risk Disclosure

Figure 4.3 is generated from table 4.8 to give a better interpretation of the risk disclosure trend relating to actual and perceived risk disclosure. Figure 4.3 reveals an increasing trend of risk disclosure concerning actual risk disclosure, while perceived risk disclosure remains the same across the sampled period.

Figure 4 4: Year on Year Perceived and Actual Risk Disclosure



Source: Annual Report of Banks and Author's Calculation (2016)

Table 4.4 presents the summary statistics of perceived and actual risk disclosure. The table shows that the average for overall actual risk disclosure of 133 is more than the average disclosure for the overall perceived risk of 8. Factual risk disclosure has a range between 52 and 272 number of risk disclosed by the sampled banks. The perceived risk disclosure ranges between 4 and 14 of the sampled banks. The result shows sampled banks disclosed more factual risk information than perceived risk information. Of the total risks disclosure, 94% was an actual risk, and 6% was a perceived risk.

Table 4 4: Summary Statistics of Overall Perceived and Actual Risk Disclosure

Stats	N	Mean	SD	Min	max	Skewness	Kurtosis
Perceived	168	7.86	2.13	3.85	14.30	0.67	3.35
Factual	168	133.12	44.60	52.08	271.70	0.78	3.51

Source: Annual Report of Banks And Author's Calculation (2016)

Table 4.4 indicates descriptive statistics of the variables collected for the study. Most importantly, the descriptive analysis gives information regarding the standard deviation and mean of the individual variables used in the research. It additionally gives the maximum and minimum values of the variables.

4.2.4 Descriptive Statistics of the Variables

Table 4.5 contains the descriptive statistics of the dependent, independent, and control variables of the sampled banks used in the study.

Table 4 5: Descriptive Statistics of the Dependent, Independence and Control Variables

Variable	Obs	Mean	SD	Min	Max
BRD	168	4.90	0.33	4.03	5.66

INOWN	139	0.83	0.17	0.26	1.00
BRSIZE	142	8.97	1.85	5.00	15.00
BINDI	139	0.70	0.13	0.25	0.88
ACINDI	87	0.97	0.09	0.60	1.00
RMCs	87	4.14	1.30	2.00	7.00
BKSIZE	166	20.26	1.09	16.16	22.46
ROA	166	0.05	0.09	-0.17	0.57
AUDTYP	168	0.82	0.38	0.00	1.00
IFRSAdopt	168	0.90	0.30	0.00	1.00
LFB	168	0.52	0.50	0.00	1.00
LNB	168	0.29	0.45	0.00	1.00

Note: BRD represents bank risk disclosure, IOWN is institutional ownership, BRSIZE stands for bank size, BINDI also stands for board independence, ACINDI represents audit committee independence, RMCs stands for risk management committee size, BKSIZE is bank size, ROA represents return on assets, AUDTYP stands for audit type, IFRSAdopt is IFRS adoption by the bank, LFB stands for local or foreign banks and LNB represents listed or non-listed bank

Source: Annual Report of Banks and Author's Calculation (2016)

Concerning corporate governance, the mean figure for INOWN stood at 0.83, with a standard deviation of 0.17. The minimum and maximum institutional ownership stood at 0.26 and 1. The result implies that averagely, institutional investors hold 83% of the total shares of the sampled banks. This result indicates that institutional owners possess a controlling interest and therefore have the power to demand better risk information to access the effectiveness of management in dealing with risks.

In terms of the BRSIZE, an average number of 9 directors was recorded with maximum, and minimum figures of 5 and 15 directors respectively. The standard deviation of the broad size

reported stood at 2 board directors. In a similar corporate governance study of listed firms in Ghana, Aboagye-Otchere *et al.* (2012) found an average board size of 9 directors, and a minimum and maximum being 5 and 13 directors respectively. Fama and Jensen (1983) set the ineffective threshold of board size to be more than 7 board directors.

On average, BINDI registered 70% of the sampled banks indicate that averagely 70% of the directors on board banks are external directors. The minimum and the maximum number of the external directors on a bank's board stood at 25% and 88%, while a standard deviation is 13%. The external directors are put on the board by shareholders to monitor the self-interest behavior of management. There is an assumption that a higher number of external directors on the board of a bank will ensure greater risk disclosure by banks in Ghana.

Also, the average ACINDI stood at 97% of the total number of directors on the audit committee indicates that an average of all of the directors that serve on the audit committee of a bank are external directors. The minimum audit committee independence is 60%, while the maximum recorded stood at 100% with a standard deviation of 10%. The Ghana Companies Code, 1963 indicates that audit committee members should be at least three, and the majority of them are external directors. This result is to ensure the independence of the auditor committee. The result from table 4.5 reveals that banks in Ghana comply with this requirement of the companies code, 1963. Again, a study by Aboagye-Otchere *et al*. (2012) found that averagely, the audit committee composition of listed firms in Ghana stood at 0.87 (87%).

The RMCs, which is measured by the number of directors on the committee, has an average size of 4 and a standard deviation of 1.274. The minimum size of the risk management committee stood at 2, whiles the maximum size stands at 7. The average board size indicates that averagely, almost

half of the directors on the board of a bank serve on the risk management committee given that all the members on the committee are board members. This average figure shows how important it is to the board to ensure that risks are given attention to at the board level of a bank.

In terms of the control variables, BKSIZE, which is measured by the log of total assets, has an average figure of 8.800 with a standard deviation of 0.474, while the minimum and maximum bank sizes are 7.020 and 9.754 respectively. Comparing the average, minimum, and maximum figures coupled with small standard deviation indicate that assets of banks are close to each other. The reason can be attributed to the minimum capital regulation of the industry. Also, ROA representing profitability has an average of 0.051 and a standard deviation of 0.086 with the minimum and maximum return on assets standing at -0.171 and 0.579.

The AUDTYP, which represents a Big 4 audit firm has an average of 82%. On average, 82% of the banks sampled are audited by a Big 4 audit firm. This result shows that in Ghana, the majority of the banks engage the services of a Big 4 audit firm. The auditor type has a standard deviation of 0.384 with the maximum and minimum auditor type standing at 1 and 0 respect.

The descriptive statistics ultimately exhibit that the average bank IFRSAdopt stood at 90%, implying 90% of the sampled banks adopted IFRS during the period studied with very few banks not applying IFRS at the beginning years. The minimum and maximum IFRS adoption for the sampled banks stands 0 and 1 with a standard deviation of 0.30.

A LFB is a dummy variable which measures 1 if the bank is foreign and 0 if the bank had an average figure of 52% indicating that 52% of the sampled banks used in the study are foreign banks. Given that local or a foreign bank is dummy variable has a minimum and maximum figures of 0 and 1. The standard deviation of this variable stood at 50%.

A LNB, which is dummy had an average figure of 29%, which indicates that 29% of the banks used in the study are listed. About 71% of the banks used in the study are averagely unlisted banks. The minimum and maximum figures of listing banks stand at 0 and 1 with a standard deviation of 45%.

4.3 Correlation Analysis

The study undertakes a correlation analysis to test the presence of multicollinearity among the explanatory and control variables. The Pearson correlation bivariate evaluation is applied to check a possible linear relationships among the predictor variables. Table 4.6 indicates the Pearson correlation coefficients of association between the variables used in the study.

The result reveals that bank risk disclosure has a positive correlation with institutional ownership, board size, board independence, risk management committee size, bank size, return on assets, auditor type, IFRS adoption, and local or foreign banks. Bank risk disclosure, however, had a negative correlation with audit committee independence and listed banks.

The result again indicates that the highest correlation occurs between INOWN and LNB at 53%. Following this is the correlation between INOWN and LFBanks at 52%. The least correlation occurs between ACINDI and IFRSAdopt at 1%. The highest and the least correlations exhibit a negative direction, while that of the second highest shows a positive correlation.

The correlation matrix indicates no multicollinearity among the variables in the correlation matrix. Multicollinearity occurs where the independent variables are highly correlated at 0.7 or above (Kennedy, 2008).

As a robustness check on multicollinearity, the Variance Inflation Factor (VIF)[1] was run. The result indicates an average of 2.04 falls within the accepted level. Hence, the test endorses the findings of the Pearson coefficient test that no multicollinearity exists among the predictors of the model.

Table 4 6: Pearson's Correlation Matrix for the Variables

	BRD	INOWN	BRSIZE	BINDI	ACINDI	RMCs	BKSIZE	ROA	AUDTYP	IFRSAdopt	LFB	LNB
BRD	1.000											
INOWN	0.223***	1.000										
BRSIZE	-0.035	-0.213**	1.000									
BINDI	0.054	-0.028	-0.027	1.000								
ACINDI	-0.055	-0.064	-0.037	0.045	1.000							
RMCs	0.284***	0.075	0.245**	0.143	-0.233	1.000						
BKSIZE	0.385***	-0.135	0.145*	-0.165*	0.071	-0.017	1.000					
ROA	0.242***	0.087	-0.138	0.048	0.155	0.171	0.253***	1.000				
AUDTYP	0.401***	0.348***	-0.165**	-0.019	0.019	0.029	0.069	0.061	1.000			
IFRSAdopt	0.349***	0.114	0.035	-0.172**	-0.014	-0.019	0.393***	0.015	0.153**	1.000		
LFB	0.335***	0.524***	-0.252***	-0.100	-0.259**	0.090	-0.043	0.075	0.458***	0.036	1.000	
LNB	0.031	-0.529***	0.277***	-0.113	0.149	0.171	0.337***	-0.024	0.157**	0.037	-0.030	1.000

Note: RDS refers to Mandatory risk disclosure score of banks in Ghana, INOWN stands for institutional ownership, BRSIZE stands for broad size, BINDI represents board independence, ACINDI stands for audit committee independence RMCs stands for risk management committee size, BKSIZE represents bank size, ROA stands for return on assets, AUDTYP stands for auditor type, IFRSAdopt represents IFRS adoption by the bank, LFBanks stands for local or foreign banks and Listing is listed or non-listed banks

Source: Annual Report of Banks and Author's Calculation (2016)

4.3 Corporate Governance on Bank Risk Disclosures

[1] As a rule of thumb, if the VIF of a variable exceeds 10 (VIF>10), it is considered to be highly collinear (Gujarati, 2003)

To achieve the main objective of the study, the study estimated a regression model with bank risk disclosure level as the dependent variable and corporate governance variables as independent variables while controlling for bank size, return on assets, auditor type, IFRS adoption by the bank, a local or foreign bank, as well as listed or non-listed banks. The study carried out an analysis to determine the effects of corporate governance as a whole on the risk disclosure level of banks in Ghana. Two regression analysis were estimated; model I deals with the separate governance variable effects on bank risk disclosure, and model II deals with the combined (joint) governance effects on bank risk disclosures.

A positive coefficient from the regression results indicates that an increase in the independent variable will lead to an increase in bank risk disclosures. A negative value indicates a reduction in bank risk disclosures. Table 4.7 shows regression results of the effect of corporate governance and firm-specific variables on risk disclosures of banks in Ghana. The regression result in Table 4.7 also shows an R^2 of 0.655. This result indicates that about 66% of the variation in the dependent variable is caused by the variation in the independent and control variables in the analysis. The adjusted R2 of 0.57 also indicates that the independent and control variables adequately explain the dependent variable.

The results of the Doornik Hansen test for normality and Wooldridge test for autocorrelation are also presented in table 4.7. The significance exhibited by the p-value under the Wooldridge test indicates the presence of autocorrelation. The study employs the panel corrected standard error (PCSE) estimation technique to robust for autocorrelation and heteroskedasticity (Beck & Katz, 1995; 2011). The p-value of the Doornik Hansen test, which is significant, also indicates that data is not normally distributed.

The F-test statistic determines whether all the coefficients in the model are significantly different from zero. An F-test statistic of less than 0.05 indicates that a model is fit (significant). From Table 4.10, the results show that the independent variables are statistically significant in predicting the dependent variables (bank risk disclosure) with $F\ (9,\ 46) = 10.13, p < 0.000$ implying the regression model is a good fit of the data.

Table 4 7*:* Regression Results on Corporate governance on Bank Risk Disclosure

Dependent Variable: BRD		
	Model I	**Model II**
INOWN	0.378	
	(0.259)	
BRSIZE	0.012	
	(0.024)	
BINDI	0.347*	
	(0.203)	
ACINDI	-0.405	
	(0.343)	
RMCs	0.045**	
	(0.023)	
JCG		0.002
		(0.002)
BKSIZE	0.160***	0.122***
	(0.041)	(0241)
ROA	0.841**	0.273
	(0.368)	(0.241)
AUDTYP	0.514***	0.219***

	(0.114)	(0. 066)
IFRSAdopt	0.065*	0. 092*
	(0.107)	(0. 048)
LFB	-0.176**	0. 134**
	(0.082)	(0. 059)
LNB	-0.040	-0.153**
	(0.106)	(0. 069)
Constant	0. 690	2.097***
	(0.856)	(0. 468)
Diagnostic Tests		
Observation	69	69
R-Square	0.6448	0.4178
Adjusted R-Square	0.5696	0.3920
F-statistics (11, 52)	8.58***	16.20***
Woolridge test (1, 11)	100.711***	49.705***
Doornik-Hansen chi2(24)	1375.770	1287.604
Prob>chi2	0.0000	0.0000

*Note: Model I represent risk disclosure score where the risk disclosure counts are normalized by taking the natural log of the risk disclosure count. Model II represents the risk disclosure coverage where the risk disclosure counts are divided by the total number of sentence in the note to the account of banks examined. INOWN stands for institutional ownership, BRSIZE stands for board size, BINDI represents board independence, ACINDI stands for audit committee independence RMCs stands for risk management committee size, BKSIZE represents bank size, ROA stands for return on assets, AUDTYP stands for auditor type, IFRSAdopt represents IFRS adoption, LFBanks stands for local or foreign banks and Listing represents listed or non-listed banks . The figures in the parenthesis are standard errors. Other diagnostic tests included in the table are the F-test which reveal model is a good fit of the data and the Doornik-Hansen test for normality of which results reveal that residuals are normally distributed. Woolridge test reveals the presence of serial correlation ***,**, * denotes significance level of 1%, 5% and 10% respectively*

Source: Annual report of banks and author's calculation (2016)

For Model I in Table 4.10, the result indicates that INOWN has a positive relationship with BRD, but this relationship is not significant. INOWN from the descriptive statistic is 82.7% of the total ownership of the banks. This result indicates a controlling interest and therefore means that institutional investors may have a representative on the board. It presupposes that institutional investors have other means of accessing risk information from the bank, so they are not much concerned about risk disclosed in the annual reports of banks. The result does not support the theoretical argument that institutional owners exert more pressure on management to disclose more risks to reduce agency problems. In that regard the alternate hypothesis H1 is rejected. This finding

is consistent with Solomon *et al.* (2000) who found that institutional ownership in the UK is insignificantly related to risk disclosures but is in contrast with Abraham & Cox (2007) and Taylor (2001) who found a positive relationship between risk disclosures and short term institutional investors. Subsequently, the study finds no support for the first hypothesis, which posits a negative connection between INOWN and BRD.

The study found BRSIZE to be insignificant and negatively related to BRD. This result indicates that the BRD does not depend on BRSIZE of banks in Ghana. The descriptive statistics reveal an average of 9 directors serving on the board of banks. This result shows a weakening board's role in ensuring higher BRD (Fama & Jensen, 1983). In a related study, Chen and Jaggi (2002), Haniffa and Cooke (2002) found an insignificant association between board size and risk disclosure. The result provides no support for the second hypothesis, which posits a positive relationship between BRSIZE and BRD.

The study found that BINDI has a positive and significant relationship with BRD. This finding is an indication that a high proportion of external directors on the bank's board increase BRD. In that regard the alternate hypothesis H3 is accepted. This result is consistent with studies of Chen & Jaggi (2000); Healy & Palepu; (2001) and Haniffa & Cooke (2002). The study supports the argument that the presence of external directors on the board brings about more BRD in that they monitor the decisions of the boards and ensure that the boards become more transparent about their risks (Eng & Mak, 2003). This result finds support for the third hypothesis, which states that there is a positive relationship between BINDI and BRD.

The regression result also suggests that ACINDI has a negative relationship with BRD and indicates an increase in the number of external directors on the committee resulting in a lower

BRD. This link is not significant. The finding does not support the agency theory assertion that an independent audit committee enhances disclosures. This finding is similar to Aboagye-Otchere *et al.* (2012), who found no significant relationship between audit committee independence and the disclosure of listed firms in Ghana.

The results from Model I again reveal that risk management committee size has a positive connection with risk disclosure of banks. This result is significant, indicating that an increase in risk management committee size results in a higher risk disclosure, thereby reducing agency cost and information asymmetry. In that regard the alternate hypothesis H5 is accepted. The reason for the positive relationship could be effective monitoring, identification, and provision of disclosure of risks occurring through activities of the risk management committee. The study finds support for the agency theory and indicates that the management committee provides compliance function and will reduce the agency problem of information asymmetry by increasing BRD. In closely related studies, Neri (2010) found a non-significant relationship between the presence of risk committee and risk disclosure while Hassan *et al.* (2008) found a positive and significant relationship between the existence of risk management committee and risk disclosures.

In terms of the control variables, the results also revealed that bank size has a positive relationship with risk disclosure scores, indicating that the bigger banks ensure more risk disclosures than smaller banks. The positive bank size coefficient shows that large banks are complex, so they disclose a higher risk. Other studies that revealed positive and significant relationships are Cooke (1989), Hossain *et al*. (1994), McNally *et al*. (1982), Wallace *et al*. (1994).

The study found ROA, which represents profitability to have a positive and significant relationship with bank BRD. The result indicates that profitable banks disclose higher risk information than

those that are less profitable. The reason could be that profitable banks tend to assume more risks, therefore, disclosing higher risks. Similar studies that reveal positive and significant relationship is Deumes and Knechel (2008), while those with non-significant connection include Mohobbot (2005) and Konishi & Ali (2007).

The regression results in Model 1 again reveal that AUDTYP is positively related to BRD at a one percent significant level. The finding is an indication that big four audit firms are independent enough to enforce higher BRD. In a related study, Ahmed and Courtis (1999) found no significant linkage between AUDTYP and voluntary and aggregate risk disclosure.

The findings from the regression results again indicate that the IFRSAdopt by a bank has a positive and significant relationship with BRD. The result shows that the post-IFRS adoption by a bank results in a higher risk disclosure of banks in Ghana than pre-IFRS adoption. The reason ascribed to this finding is that IFRS contains standards on risk disclosures which banks in Ghana are required to comply with. Given the period adopted for the study, the result will have a fixed effect for all banks because of IFRS mandated by BOG and Institute of Chartered Accountant Ghana (ICAG). However, in the first year, some of the banks could not comply with a lack of preparation. In a similar study, Taylor, Tower, and Neilson (2010) found a positive relationship between IFRS adoption and risk disclosures.

The regression result reveals that LFB which are a dummy variable and measured as one when a bank is a foreign bank or otherwise has a negative and significant relationship with BRD. These results imply that a reduction in bank risk disclosure occurs when a bank is a foreign bank or otherwise. The reason for this result is that foreign banks tend to have robust systems and structures to check and mitigate risks before they occur hence disclosing lesser risk. Among these are mechanisms to raise red flags on transactions and to run robust simulations. This result makes

foreign banks strong and resilient to excessive risks. It is evident in the fact that foreign banks survive the shock anytime BOG raises the minimum capital. A study by Crystal, Dages, and Goldberg (2002) indicate that foreign banks' overall financial condition differs a little from local banks. Foreign banks showed more robust loan growth, a more aggressive response to asset quality deterioration, and a higher ability to absorb losses. This ability could help strengthen the financial systems of their host countries. However, a blend of foreign and local banks should be adopted to ensure local content.

The result shows a positive relationship between BRD and LNB, revealing a higher risk disclosure occurring when a bank is listed or non-listed. This relationship is not significant. GES have listing requirements that ensure additional risk disclosure by listed banks. The finding is similar to that of Hossain and Reaz (2007), who found that multiple listing is insignificant in ensuring more disclosures.

The study further tests the robustness of the selected corporate governance variables in enforcing BRD. In doing so, an interaction of the governance variables was run to test the joint effect of independent variables on BRD. The result of this is present in Model II in table 4.10. The regression results for model II reveal an R2 of 0.42. The result shows that 42% of the variations in joint bank governance and the control variable account for the changes in bank risk disclosure. The result of the Doornik Hansen test for normality in the Model of table 4.10 is significant, indicating that the data is not normal. The results further reveal that the p-value of Woolridge test for serial correlation model II signifying the presence of autocorrelation.

Again, the study adopts PCSE in running the regression of model II. The F-statistics of (11, 52) =10.16, $p<0.000$ in model II of Table 4.10 indicates that the regression model is a good fit for the data.

The results in model II indicate that JCG has a positive relationship with BRD. This result implies an increase in JCG results in higher BRD. However, the study found an insignificant relationship between JCG and BRD, indicating a weak connection. The interaction effect of the selected corporate governance turns not to enforce BRD. In a similar study, Rahman (2002) found a link between the joint corporate governance and the level of uncertainty arising from incomplete governance arrangements of the finance contract. The results accept the hypothesis that there is a positive relationship between bank risk disclosures and joint corporate governance.

In terms of control variables, some variables reported different results between the individual corporate effect and the joint effect of corporate on BRD. The study found some similarities between BKSIZE, AUDTYP, IFRSAdopt in both models I and II. However, model II had a different result from that of the model concerning ROA, LFBanks, and Listing. With ROA, the model I had a significant relationship while that model II was insignificant. For banks, the two models show a link with BRD. While the model reports a negative connection with BRD, model II reports a positive relationship with BRD. The result for Listing in Model I was insignificant, while that of model II indicates a significant relationship with BRD.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents the outline of the findings derived from the study and conclusions drawn from the results. It also makes prescriptions for policymakers, the academic community, and other interested parties. It ends with areas for further research.

5.2 Summary of Key Findings

This study conducts an empirical investigation into whether corporate governance influences risk disclosures of banks in Ghana. The main motive behind the study is to discover whether corporate governance mechanisms in place in the banking sector influences risk disclosure after its management by the banks. The study provides current information on the above issue and therefore analyses the risk disclosures over an eight-year period 2007-2014.

The total average value for risk disclosures scores of the examined banks stands at 141 sentence counts. Additionally, the yearly average of bank risk disclosures for the study demonstrates an increasing pattern. The reason for this expanding trend might be that banks in Ghana are becoming aware of risk management issues and their importance to the bank's managements and other stakeholders. The awareness might be due to the lessons learned from the global financial crisis that happened from 2007 to 2009, which resulted from poor corporate governance and accounting irregularities. Though there was a little dip in the trend between the periods 2009 to 2011, it went up again from 2012 to 2014. The reason for this dip can be attributed to the change in the economic environment that occurs from time to time due to changes in government and regulatory policies.

The research also looks at how risk disclosures among banks in Ghana concerning forward-looking/past risks, good/bad/neutral risks, and actual/perceived risks. The findings reveal that past risk disclosures are considerably higher than forward-looking risk disclosures. This result may be because financial reports preparations are on a historical cost basis. The findings also indicate that disclosure of good risks is higher than that of bad risk. One may cite engagement in creative accounting by some of the banks as a possible reason for this result. Furthermore, risk disclosures are higher for factual news than perceived news.

On the effects of corporate governance on risk disclosures of banks, the result from the panel regression analysis reveals the link between bank risk disclosures and bank governance. The regression analysis found a positive and non-significant relationship between institutional ownership and bank risk disclosures. The findings from the regression results also indicate a positive and significant relationship between risk management committee size and bank risk disclosures implying that an increase in the size of risk management committee brings about higher risk disclosures of banks.

Concerning board independence, the result shows that the presence of external directors on the board influences the risk disclosures of banks in Ghana. The findings of the study reveal a positive and significant relationship between bank risk disclosure and board independence. It means that the increase of external directors on the board increases the risk disclosure practices of banks in Ghana. The study further deduces that larger risk management committee size and higher board independence might act in ways that eventually reduces information asymmetry and agency problems by ensuring greater disclosure of risks in the annual reports of banks in Ghana.

The study again found that board size has a negative and non-significant relationship with risk disclosure, while audit committee independence had a positive but insignificant connection with bank risk disclosures.

Overall, the findings also reveal that the joint effect of bank governance has a positive and insignificant relationship with bank risk disclosures. This result means that as corporate governance improves in the banking sector, risk disclosures does not necessarily change.

Finally, on the control variables, all of them have a positive and significant relationship with bank risk disclosures. This finding signifies that bank size, profitability, auditor type, and IFRS adoption by banks influence risk disclosures of banks in Ghana.

5.3 Conclusion

This study concludes that though risk disclosures of banks saw an increasing trend for the period under review. Most of the risk information disclosed are good information. There is a need for appropriate strategies to ensure a balance between neutral, good, and bad bank risk disclosures to meet stakeholders' needs.

Past risk disclosures are considerably higher than forward-looking risk disclosures in corporate annual reports. This result perhaps signifies that the corporate annual reports which revolves around the financial statements, is fundamentally past looking. Furthermore, risk disclosures are higher for factual risks than perceived risks. These results imply that risk disclosure practices among banks in Ghana are geared towards past, good, and actual risk information.

The study concludes that the risk management committee size and board independence tend to enhance the risk disclosures of banks in Ghana. To manipulate risk disclosures banks should fine tune their risk management committee size and board independence. Based on the agency theory

banks with larger risk management committees tend to disclose more risk information. With regards to board independence, the more the external executive directors on the board the likelihood for the board to ensure more risk information in the corporate annual reports.

Board size, institutional ownership, board independence, and audit committee independence had no significant effect on the risk disclosure of banks in Ghana. Board size, institutional ownership, and audit committee independence do not influence bank risk disclosures as depicted in the corporate annual reports. For instance, an increase the size of the board of a bank will not generally results in a change in risk disclosures of the bank.

The findings indicate a positive and insignificant link between the joint corporate governance and bank risk disclosures. The study concludes that the corporate governance holistically does not necessarily enhance bank risk disclosures. Agency theory, which explains most mechanisms of corporate governance, is supported by the findings that bank governance structure does not foster more disclosures of risks in corporate annual reports in Ghana. Current corporate governance codes do not necessarily advocate for more disclosures of risk information beyond mandatory risk information in corporate annual reports.

5.4 Recommendations

This study gives some implications for research or /policy in Ghana.

The study as reiterated cantered on the amount of bank mandatory risk disclosures of various categories of risk in corporate annual reports and dealt with the dimensions of bank risk disclosures. Banks should continue to improve their risk disclosures to help deal with agency problems of information asymmetry and moral hazard. In that regard the risk management committee size of banks should be increased to allow for more expects who will scrutinize risk

information to be disclosed so as to increase risk disclosures in corporate annual reports. In addition the higher the independence of the bank board the better the disclosures of risk information in the corporate annual reports. Banks in their attempts to increase risk disclosures should increase the number of non-executive directors. The latter act as checks on executive directors and thus advocates and ensure disclosures of more risk information.

In terms of the future of the research area, further studies could look at the quality of such risk disclosures to stakeholder decision-making and value creation. Furthermore, the study focused on mandatory bank risk disclosures. Bank voluntary risk disclosure could be an area of further investigation.

Likewise, future research can look at a more extended period and more than one nation to achieve an improved perspective and profound acumen into risk disclosure practices in various supervisory, economic, and cultural environments in Africa. Besides, the research focused on banks, research on other industries (example insurance and fund management firms), or both can be a matter of further investigation.

The benefits of risk disclosures can be additionally researched by looking at the value relevance of risk disclosures. This examination explored the financial reports, which are purely historical. Thus researchers can attempt further examination of risk disclosures utilizing different sources, for example, interim reports, press releases, and press releases on the websites. One can also research the effects of timely risk disclosures on stock exchange instability and share price movement.

5.5 Limitations

This study expands understanding of the nature of risk management and its disclosures in corporate annual reports, but this understanding is not exhaustive. Similarly, it extends knowledge on how

corporate governance influences the risk reporting of banks in Ghana. There may be no studies without restraints, and this study is no unique case. The primary limitation of this research is the evaluation of risk disclosures from a single source, the annual report. Though, different reporting lines exist, which can be viewed as appropriate resources of data, for example, one-to-one personal meetings, conference calls, and press releases. Examining risk information from such sources can be for further studies.

Another challenge is with the content analysis method used in the research, which has a subjective interpretation. The study cannot eliminate subjectivity; nevertheless, the researcher introduces several techniques to minimize the drawbacks. For instance, unique renditions of the classes were given. The researcher then engaged two coders methods to improve the authenticity of coding and decrease the impact of the researcher bias that would have been the case if there has been only one coder.

The last limitation is the restriction of estimation of risk disclosure to the number of disclosures within banks' annual reports. Beretta and Bozzolan (2004) contend that the number of disclosures alone cannot verify the viability of risk disclosures.

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APPENDICES

Appendix 1: Framework of Risk Categories that can be Disclosed

Risk Management	Liquidity Risk	Credit Risk
Cross-Border Risk	Marketplace Risk	Interest Rate Risk
Currency Risk	Derivative Risk	Hedged Risk
Economic Risk	Operational Risk	Legal Risk
Capital Management Risk	Investment and Insurance Risk	Strategic Risk

Financial Crime Risk	Competition Risk	Risk Related To Tax
Financial Reporting Risk	Risk Related To Safety and Security	Leasing Risk
Sustainability Risk	Customer Treatment Risk	People Risk
Political Risk	Industry Risk	Impairment Risk
Special Purpose Entities	Risk Related To Technology	Equity Risk
Change Risk	Governance Risk	

Source: Rattanataipop (2013)

Appendix 2

List of Sampled Banks

Banks	**Listing**	**No. of sampled banks**	**Total of sampled banks**	**% of sampled banks**	**% of the total sampled banks**
Local Banks	Listed	3	10	14.3	47.6
	Not Listed	7		33.3	
Foreign Banks	Listed	3	11	14.3	52.4
	Not Listed	8		38.1	
Total			21	100.0	100.0

Source: Author's Estimation, 2016

Appendix 2:

Appendix 2: List of Banks used in the study

NO	Banks	Abbreviations	Listed/ Nonlisted within the period of study	Foreign/ local
1	Agricultural Development Bank	ADB	Non listed	Local
2	Barclay Bank Ghana	BBG	Non listed	Foreign
3	Bank of Africa	BOA	Non listed	Foreign
4	Cal Bank	CAL	Listed	Local
5	Ecobank Ghana	EBG	Listed	Foreign
6	First Atlantic Merchant Bank	FAMB	Non listed	Local
7	Fidelity Bank Ghana	FBG	Non listed	Local
8	GCB Bank	GCB	Listed	Local
9	Guaranty Trust Bank	GTB	Non listed	Foreign
10	HFC Bank	HFC	Listed	Local
11	International Commercial Bank	ICB	Non listed	Foreign
12	Merchant Bank	MB	Non listed	Foreign
13	National Investment Bank	NIB	Non listed	Local
14	Prudential Bank Limited	PBL	Non listed	Local
15	Société Générale Bank Ghana Limited	SGB	Listed	Foreign
16	Stanbic bank	Stanbic	Non listed	Foreign
17	Standard Chartered Bank	SCB	Listed	Foreign
18	United Bank of Africa	UBA	Non listed	Foreign
19	Unibank Ghana	Unibank	Non listed	Local
20	Zenith Bank	ZB	Non listed	Foreign
21	Sahel Sahara Bank Ghana	BSIC	Non listed	Foreign

Appendix 3: Variance Inflation Frequency (VIF) of the Independent Variables

Variable	VIF	1/VIF
Listing	4.10	0.244
INOWN	2.74	0.365
BRSIZE	2.3	0.434
LFBanks	2.29	0.436
ACINDI	2.04	0.491
ROA	1.85	0.540
RMCs	1.69	0.591
BKSIZE	1.48	0.677
AUDTYP	1.41	0.709
BINDI	1.32	0.755
IFRSAdopt	1.22	0.819
Mean VIF	**2.04**	